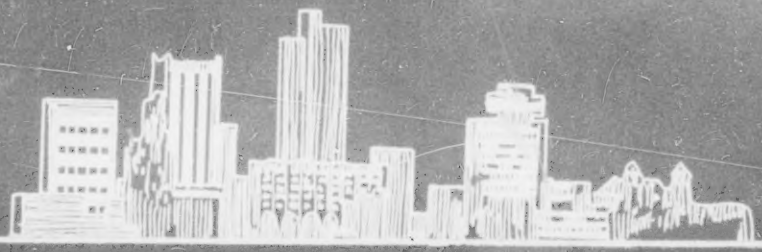
ARIZONA DEPARTMENT OF REVENUE

S0515-1-U

1987 ANNUAL REPORT



ARIZONA DEPARTMENT OF REVENUE

1700 WEST WASHINGTON • PHOENIX, ARIZONA 85007

EVAN MECHAM
Governor

C. "HOS" HOSKINS
Director

November 15, 1987

The Honorable Evan Mecham
Governor, State of Arizona
State Capitol

Dear Governor Mecham:

On behalf of the Arizona Department of Revenue, I am pleased to submit to you and the members of the 38th State Legislature our annual report for the fiscal year ending June 30, 1987.

Through the information provided in this report, it is our objective to increase taxpayer's understanding of the operation of the Department and of our continuing efforts to ensure the fair and equitable enforcement of all tax laws. We are pleased to report that during fiscal year 1986-87, achievements were made in this area, as described on the following pages.

Sincerely,

ARIZONA DEPARTMENT OF REVENUE

C. "Hos" Hoskins
Director

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ARIZONA DEPARTMENT

OF REVENUE

1987 ANNUAL REPORT

CONTENTS

PAGE

Summary of Fiscal Year 1986-87

Organization Chart..... 1
Achievements..... 2
Table 1: Gross Collections of Audit Assessments and Delinquent Tax.... 8
Table 2: Gross Revenue Collected..... 9
Table 3: Net Revenue to State General Fund.....10
Graph : Gross Revenue Collected vs. Net Revenue to State General Fund.....11

Sales Tax

Major Features and Distribution.....13
Table 4: Gross Sales, Use & Severance Tax Collections.....15
Graph : Gross Sales, Use, & Severance Tax Collections.....17
Table 5: Distribution of Sales Tax Collections.....19
Graph : Distribution of Sales Tax Collections.....21
Table 6: Sales and Severance Tax Rates.....23
Table 7: Net Taxable Sales by Sales Tax Classifications.....24
Table 8: Sales Tax Collections by Class.....25
Graph : Sales Tax Collections by Class.....27

Distribution Base Portion of Sales Tax Collections by County, by Taxable Activities and Business Classifications

Features.....29
Table 9: Apache County.....30
Table 10: Cochise County.....31
Table 11: Coconino County.....32
Table 12: Gila County.....33
Table 13: Graham County.....34
Table 14: Greenlee County.....35
Table 15: La Paz County.....36
Table 16: Maricopa County.....37
Table 17: Mohave County.....38
Table 18: Navajo County.....39
Table 19: Pima County.....40
Table 20: Pinal County.....41
Table 21: Santa Cruz County.....42
Table 22: Yavapai County.....43
Table 23: Yuma County.....44
Table 24: State Sales Tax Distribution to Counties.....45
Table 25: State Sales Tax Distribution to Municipalities.....46
Table 26: Municipal Sales Tax Collection Program; Collections by City.....47
Table 27: Municipal Sales Tax Collection Program.....48

CONTENTS

PAGE

Income Tax
Features and Distribution....49
Table 28: Income Tax Collections....51
Graph : Income Tax Collections....53
Table 29: Exemptions, Deductions & Credits Indexed to Inflation....55
Table 30: Selected Individual Income Tax Credits....56
Table 31: Distribution of Income Tax as Urban Revenue Sharing to Municipalities....57
Table 32: Urban Revenue Sharing....58

Luxury Tax
Features and Distribution....59
Table 33: Luxury Tax Collection....60
Graph : Luxury Tax Collections....61

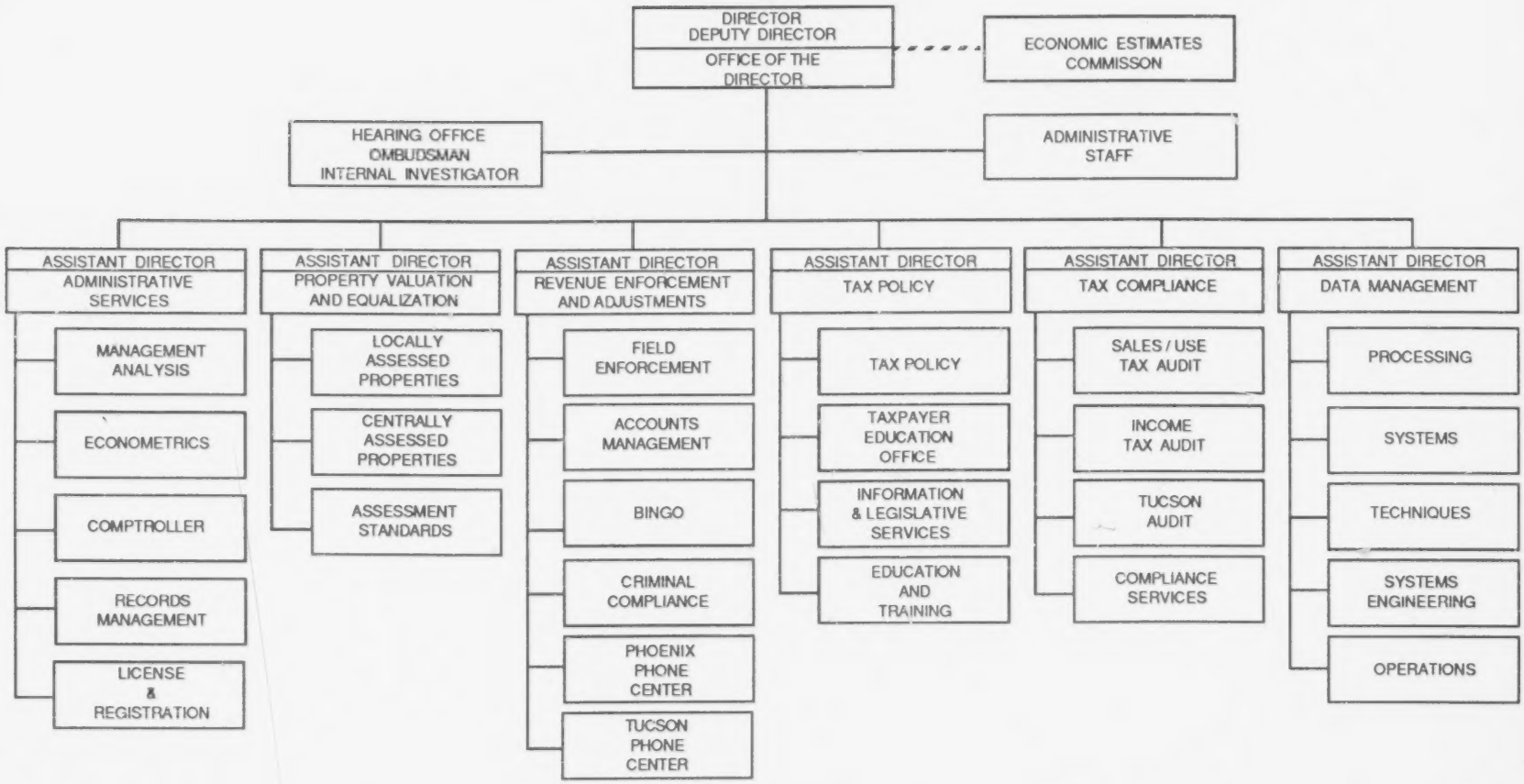
Estate Tax
Features....63
Table 34: Collections of Estate Taxes and Unclaimed Property....65
Table 35: Distribution of Estate Tax Collections....65

Bingo
Features....66
Table 36: Bingo Collections....67

Property Tax
Features....68
Table 37: Property Tax Collections....70
Table 38: Net Assessed Valuation by County....71
Table 39: Property Assessment Responsibility....72
Table 40: Average Property Tax Rates....73
Table 41: Summary of Primary Tax Levies....74
Table 42: Summary of Secondary Tax Levies....75

Legislation
Review of the 1986 Legislation....76

STATE OF ARIZONA
DEPARTMENT OF REVENUE
ORGANIZATION CHART
JUNE 1987



REVISED: 6-17-87

ACHIEVEMENTS

The Arizona Department of Revenue consists of six divisions integrated to achieve its primary goal of efficient tax collection and processing. These divisions accomplish this goal through the major functions of enforcement, taxpayer assistance, processing, and property valuation.

ENFORCEMENT

The Department of Revenue has the responsibility to maintain equity among taxpayers throughout the State and to ensure that everyone pays their fair share. Audits not only establish revenue rightfully due to the State, but ensure that tax laws are enforced equitably to enhance our system of voluntary compliance.

The audit function emphasized quality enhancements to, and further automation of, its program.

Technical training of audit staff was emphasized during fiscal year 1986-87. New curricula for four types of income tax audits were presented to income tax audit staff, and corporate auditors were given advanced training in corporate income tax law and international issues. Sales tax auditors received specialized training in various sales and use tax issues, jeopardy assessments, investigative and interview techniques, report writing, and automated assessment issuance procedures.

Income tax assessment issuance was automated for all types of audits and adjustments; sales tax audit history and inventory bases were developed on a personal computer. Sales tax audit selection was strengthened by the development or expansion of the audit history base, automated scheduling of large, cyclical audits, statistical analysis of audit potential, and computerized tracking of all assigned audits.

While audits cover civil enforcement of the tax statutes, criminal violations of those statutes are also a major concern of the State. During the 1986-87 fiscal year, a large sales tax evasion case, involving multiple corporate and individual taxpayers, was referred to the Attorney General for prosecution. Several indictments were returned against taxpayers involved in fraudulent refund schemes and failure to file sales tax returns. One defendant was convicted and another entered a guilty plea.

Once a civil audit is completed and the taxes owed are calculated, the Department must ensure that the revenue is, in fact, collected. Also, some taxpayers fail to file or pay at the time of filing, which also requires collection action. Revenue collection begins with the billing of taxpayers, and, if that effort is unsuccessful, the taxpayers are then contacted by telephone collectors.

To facilitate the phone collection function, the installation of the Computer Assisted Collection System (CACS) was completed January 5, 1987. The system requires "on line" collection activity and has resulted in quicker and more

accurate resolution of liabilities owed to the State. Combined planning with the data processing and training functions provided a smooth transition to the "paperless" collection system.

Accounts which cannot be resolved through telephone contact are referred to field collectors. Field Collection implemented a new program to ensure the collection of sales taxes at special events. This includes a monitoring system which aids in the identification of out-of-state vendors and promoters operating at concerts, festivals, and other such events. (Refer to Table 1.)

	FY 83-84	FY 84-85	FY 85-86	FY 86-87
Number of subpoenas served	N/A	1,825	2,925	1,057
Number of levies served	N/A	5,755	7,165	6,489

The debt setoff program, which appropriates money from taxpayer refunds to pay debts owed to any State agency, is in its third year and has expanded to include corporate, as well as personal income taxes. Three additional agencies joined the program, and $963,000 was returned to participants.

	CY 84	CY 85	CY 86
Participating State agencies	7	17	20
Number of taxpayers	2,303	2,575	7,083
Amount recovered to agencies	$338,955	$341,866	$963,000

TAXPAYER ASSISTANCE AND EDUCATION

While enforcement of the statutes for all tax types is of primary concern, the Department realizes most taxpayers want to pay their taxes properly. Therefore, educating the public about our tax laws is a major goal of the Department. This is accomplished through taxpayer assistance, education, training, and rules promulgation programs.

During the fiscal year, the Department assisted 307,503 taxpayers through its correspondence, telephone, and walk-in programs. A comparison with previous years is shown below.

	FY 83-84	FY 84-85	FY 85-86	FY 86-87
Correspondence received	49,721[1]	80,731	57,574	51,844
Phone assistance	394,975	349,629	332,758	220,383
Walk-in taxpayers	43,382	41,327	47,967	35,276

[1] Part-year total.

We believe that the decline in taxpayers assisted may be attributable to the taxpayer education programs that were initiated this past year which are of an outreach nature.

In addition to the publication of a tax practitioner newsletter and participation in practitioner and public seminars which were done previously, the Department developed several new methods of disseminating tax information. The development of informational brochures, posters, presentations for the hearing impaired, scripts for taping for the handicapped to call for tax information, and the development of 23 scripts for the tax tape telephone line were among the accomplishments of a new taxpayer education section.

Rulemaking was also a primary focus of the Department with 181 rule actions prepared and sent to the Attorney General's Office for certification. The focus of those actions was the total overhaul of the Department's administrative rules and included the deletion of obsolete rules and the review and/or revision of substantive issues. Major areas of rulemaking were: license cancellation criteria; bonding, appeals and protest procedures; sales and use tax rates; transactions between affiliated persons; computer software and nuclear fuel taxation; machinery and equipment exemptions; amortization of child care facilities; and, withholding and estimated tax payments.

To enhance the quality of Department interaction with taxpayers, training was heavily emphasized during the fiscal year. In addition to the audit, collection, and property tax training discussed in other parts of this report, the Department participated in a National Association of Tax Administrators pilot project focusing on IRS and State tax agency training cooperation. The project included the exchange of written and video course materials, training facilities, mutual exchange of participant slots on classes, and experts in both the classroom and the field to convey new techniques.

PROCESSING

Accuracy of processing is important for three reasons: first, to ensure payments are properly credited; second, to maximize interest earnings; and finally, to refund overpayments promptly. Since last fiscal year, refund turnaround has decreased by 24%, and the number of issued refunds has grown approximately 2%. The first refund warrants were issued January 2, 1987. The issuance of income tax refunds during the year reflected improvements in the processing flow largely attributable to the "fine-tuning" of the existing computer programs, the increased computer processor capacity, and efforts to streamline the flow of documents.

The time from receipt to deposit of payments during the peak income tax season has decreased, while deposit time has remained constant at 24 hours for non-peak season.

Improvements in the income tax processing system enhanced production this year. On the average, refund checks were issued in 16 days, as opposed to 21 days the previous year. By June 30, all but 180 of the 1,300,000 timely-filed returns had been processed. Four percent fewer returns required correction or review by the error resolution function.

	FY 83-84	FY 84-85	FY 85-86	FY 86-87
Individual income refunds issued	609,509	639,984	670,492	681,277
Average refund turnaround (days)	84	42	21	16
Turnaround of General Fund Deposits (per 24 hour day)				
Non-peak season (maximum hours to deposit)	24	24	24	24
Peak Season	672	384	264	200
Average day of monthly distribution of sales tax	23rd	19th	16th	13th
Documents processed				
Sales tax	985,251	991,489	998,575	1,000,000
Individual income tax	1,180,638	1,239,670	1,309,872	1,381,000
Corporate tax	111,596	116,062	125,286	129,000
Withholding tax	679,813	700,207	801,054	881,800
Total documents processed	2,957,298	3,047,428	3,234,787	3,391,800

An income tax modeling system was created to give an on-line view of the impacts caused by both federal and State income tax law modifications. With the 1987 and 1988 federal income tax changes, this model will allow the State to keep abreast of monetary fluctuations.

PROPERTY VALUATION

Recent legislation (see ARS Section 42-150) gave the Department authority to issue biennial equalization orders to ensure that all property in the State is appraised for tax purposes at its full cash value. This equalization process takes effect with the 1988 tax year.

The Department's primary tool in evaluating appraisal performance is its sales ratio study, which compares appraised values with sales prices of recently sold properties. These studies are performed several times each year by county, type of property, and area. The table below shows Statewide median sales ratios and coefficients of dispersion by type of property for the tax years 1982 through 1987. Sales ratios are formed by dividing appraised values by sales prices of recently sold properties. The median sales ratio is the middle sales ratio when the ratios are arrayed in order of magnitude; hence, there are an equal number of properties above and below the median. For the 1987 tax year, the Department's full cash value standard called for median sales ratios of approximately 80% after allowances for the inclusion of personal property in sales prices, "creative" financing, and other considerations.

	CY 82	CY 83	CY 84	CY 85	CY 86	CY 87
Median Sales Ratios[1]						
Vacant Land	.453	.788	.656	.690	.737	.727
Residential	.675	.728	.730	.745	.812	.804
Commercial	.489	.555	.594	.678	.728	.676
Total Non-agricultural Property	.642	.700	.725	.738	.800	.797

	CY 82	CY 83	CY 84	CY 85	CY 86	CY 87
Coefficients of Dispersion						
Vacant Land	.503	.318	.324	.292	.269	.300
Residential	.149	.134	.121	.118	.116	.102
Commercial	.437	.347	.345	.329	.309	.316
Total Non-agricultural Property	.261	.194	.171	.163	.159	.146

[1] In the 1986 Annual Report, median sales ratios were divided by .80 to adjust for the inclusion of personal property, financing, and other non-real estate considerations in sales prices. The median sales ratios reported here are before any such adjustments.

Coefficients of dispersion are measures of the uniformity or consistency of sales ratios. Lower coefficients of dispersion indicate greater equity in property appraisals.

Based largely on the results of its 1987 sales ratio studies, the Department issued 24 equalization orders for specific classes and areas of property in nine counties for the 1988 tax year. All except three of the orders applied to land values. Two orders (both countywide in scope) were issued for commercial properties and one applied to residential properties. Counties or individual taxpayers affected by the orders may appeal to the State Board of Tax Appeals.

Equity of property valuation was also maintained through resolution of appeals filed by the Department of Revenue with the State Board of Tax Appeals. As a consequence of these appeals for tax year 1987, resulting from the Department's monitoring adjustments of property valuations, $31 million in full cash value was restored to the tax rolls, thereby assuring those properties were valued more equitably throughout the State.

The Department and County Assessors are jointly developing a new construction cost system for valuation of property. That system is designed to more fairly and equitably value commercial properties throughout Arizona. It is to be implemented in 1988 for valuation of property in the 1989 tax roll.

During fiscal year 1986-87, the Property Valuation and Equalization Division performed reappraisals of all commercial/industrial property in Yavapai County. This project consisted of examining 2,244 parcels containing 4,918 improvements (appraisals made for each improvement). The estimated resulting **increase** in full cash value on these commercial/industrial properties is over $55,000,000 which has the effect of providing greater equity in the distribution of tax burden for all classes of property in Yavapai County. The estimates listed above do not include approximately $9,700,000 in new construction, generating approximately $287,000 in additional tax revenues that was part of the reappraisal project.

Appraisal performance continued to improve in 1987, as most property was appraised at close to full market value and the Statewide coefficient of dispersion, a measure of appraisal equity, improved significantly for the sixth straight year. Nevertheless, commercial property and vacant land

continue to be underappraised in some areas. Under new legislation, the Department issued equalization orders in 1987 for such areas. The orders require the county assessors to reappraise the affected properties at market value for the 1988 tax year.

To augment the understandability and predictability of the equalization process, the Department drafted administrative rules on the subject of sales ratio studies and equalization. The proposed rules were approved by the Governor's Regulatory Review Council on May 5, 1987, and were the subject of a public hearing held on July 7, 1987. The Department will pursue final adoption of the rules during fiscal year 1987-88.

TABLE 1
GROSS COLLECTIONS OF AUDIT ASSESSMENTS AND DELINQUENT TAX
1985-86 AND 1986-87

	1985-86	1986-87	% CHANGE
Gross Audit Collections			
Assessment Collections	$ 43,845,177	$ 40,543,481	(7.53)
Refund Denials	3,094,222	6,229,131	101.31
Estate, Luxury, & Unclaimed Property	1,966,079	3,229,908	64.28
TOTAL AUDIT UNIT COLLECTIONS	$ 48,905,478	$ 50,002,520	2.24
TOTAL BILLINGS	$ 36,902,776	$ 46,830,313	26.90
TOTAL DELINQUENT TAX COLLECTIONS	$ 85,048,350	$ 80,402,880	(5.46)[2]
TOTAL GROSS ENFORCEMENT COLLECTIONS	$ 170,856,604	$ 177,235,713	3.73
Duplication[1], Credit Audits and Other Adjustments	(16,328,783)	(13,540,447)	(17.08)
TOTAL NET ENFORCEMENT COLLECTIONS	$ 154,527,821	$ 163,695,266	5.93

[1] Some collections of the audit unit are also included in delinquent tax collections.
[2] Reflects shift in reporting direct payments from collections to billing systems.

TABLE 2
REVENUE SUMMARY
GROSS REVENUE COLLECTED

SOURCE	1982-83	1983-84	1984-85	1985-86	1986-87
Sales And Use Tax[1]					
Distribution Base	$ 357,174,853	$ 412,072,737	$ 464,532,524	$ 490,395,472	$ 519,015,701
Nonshared	459,229,449	689,750,894	844,944,102	909,602,932	958,559,275
Use Tax	31,404,404	41,615,494	54,846,386	59,415,099	52,549,878
Subtotal	847,808,599	1,143,439,125	1,364,323,012	1,459,413,503	1,530,124,854
Income Tax					
Withholding	400,596,831	418,869,050	520,151,450	576,701,782	599,660,202
Individual	195,584,283	231,658,295	254,354,660	275,161,560	333,498,960
Corporation	169,039,740	207,341,166	215,436,786	213,236,463	249,213,473
Subtotal	765,220,854	857,868,511	989,942,896	1,065,099,805	1,182,372,635
Luxury Tax					
Spirituous Liquor	13,890,962	14,600,111	17,049,450	18,034,731	17,059,104
Vinous Liquor	3,008,457	3,663,608	6,785,029	7,563,260	7,832,584
Malt Liquor	6,813,120	7,235,455	14,102,897	15,250,805	15,927,165
Tobacco - All Types	42,467,848	41,473,630	51,386,983	51,419,032	51,781,811
Licensing	1,300	1,475	1,575	1,575	1,600
Subtotal	66,181,687	66,974,279	89,325,934	92,269,403	92,602,264
Estate Tax					
Estate	12,492,305	12,978,900	15,302,387	13,528,098	26,389,374
Unclaimed Property	995,848	1,271,125	1,864,695	2,531,318	4,824,885
Escheated Estate & Unclaimed Dividends		303,102	169,676	123,259	202,756
Subtotal	13,856,122	14,553,127	17,336,758	16,182,675	31,417,015
Bingo	388,758	415,224	412,285	600,158	730,593
Flight Property Tax	2,290,785	2,782,822	2,679,799	3,568,308	4,795,803
Private Car Tax	566,505	626,198	750,036	951,942	654,627
Nuclear Plan Assessment	968,456	573,751	410,515	412,015[4]	483,700
DEPARTMENT TOTAL	1,697,281,766	2,087,233,037	2,465,181,235	2,638,497,809	2,843,181,491
State Property Tax[2]	77,626,564	80,218,027	54,989,232	55,750,910	59,285,256
TOTAL[3]	$1,774,908,330	$2,167,451,064	$2,520,170,467	$2,694,248,719	$2,902,466,747

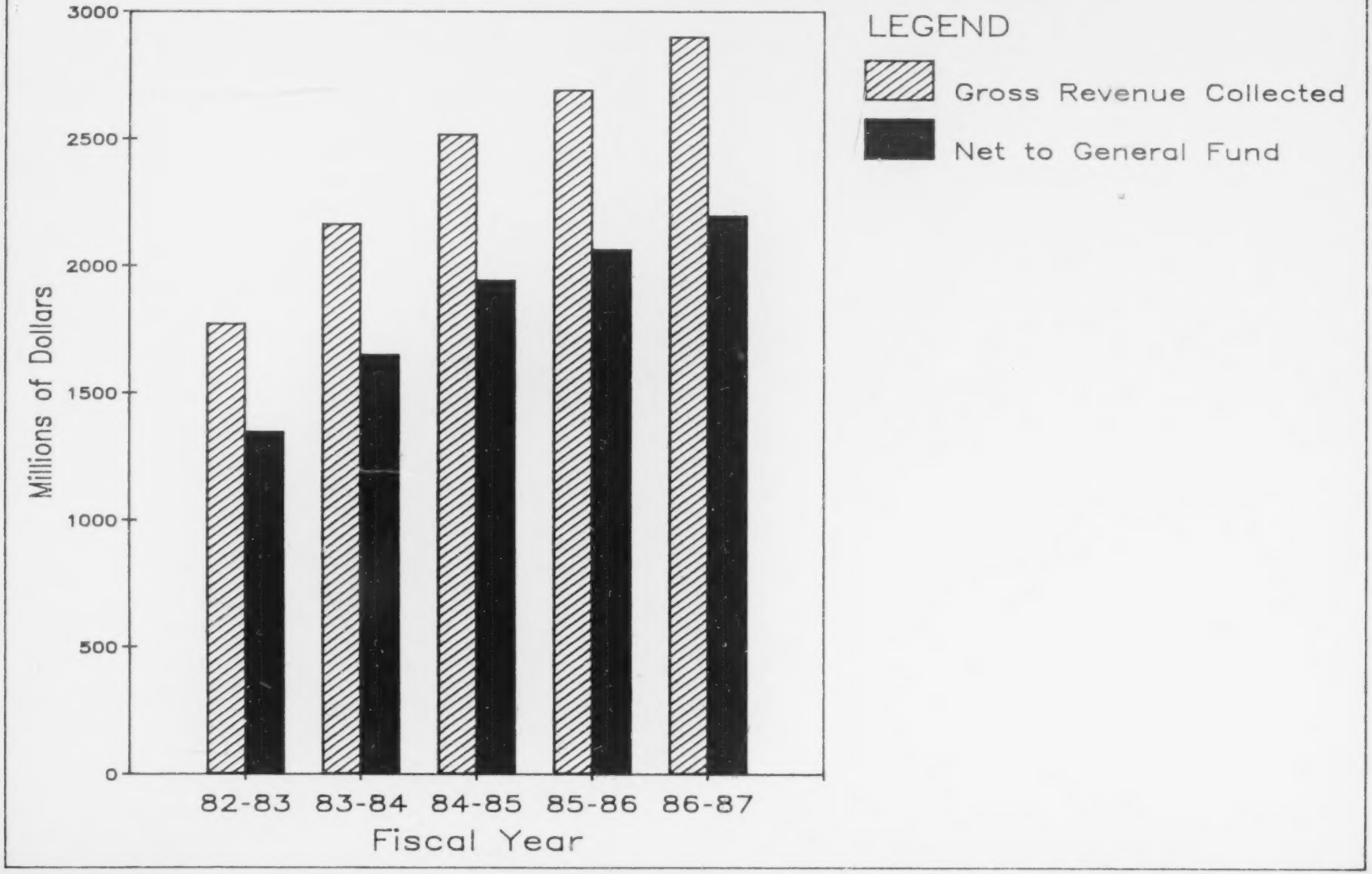
[1] Prior to FY 85-86, sales and use tax includes refunds and charge-offs.
[2] Deposited in the general fund by counties.
[3] All revenues including those which are eventually refunded or distributed to local government; does not include municipal sales tax.
[4] Received in July '86 for FY 85-86.

TABLE 3
NET REVENUE TO STATE GENERAL FUND

SOURCE	1982-83	1983-84	1984-85	1985-86	1986-87
Sales, Use & Severance Tax	$ 615,902,961	$ 854,409,463	$1,070,242,440	$1,150,175,481	$1,199,589,750
Income Tax	573,649,629	633,166,467	730,874,978	771,448,590	835,501,060
Luxury Tax	64,618,509	66,974,279	68,534,883	69,470,809	69,568,718
Estate Tax	13,123,774	13,568,050	16,384,988	15,442,463	30,220,650
Bingo	388,758	415,224	412,285[2]	264,656	370,211
Flight Property Tax	2,290,785	2,782,822	2,679,799	3,568,308	4,795,803
Private Car Tax	566,505	626,198	750,036	951,942	654,627
Nuclear Plan Assessment	968,456	573,751	410,515	412,015[3]	483,700
Department Total	1,271,509,377	1,572,516,254	1,890,289,924	2,011,734,264	2,141,184,519
State Property Tax[1]	77,626,564	80,218,027	54,989,232	55,750,910	59,285,256
TOTAL	$1,349,135,941	$1,652,734,281	$1,945,279,156	$2,067,485,174	$2,200,469,775

[1] Deposited in the State General Fund by counties.
[2] Prior to FY 85-86, all of Bingo collections went to the General Fund.
[3] Received in July '86 for FY 85-86.

GROSS REVENUE COLLECTED vs NET REVENUE TO STATE GENERAL FUND



SALES TAX

MAJOR FEATURES

Arizona's sales tax is a tax on the privilege of transacting business in the State. The rate ranges from .46875 of 1% to 5% depending on the type of business; most sales are taxed at a 5% rate. The total sales tax rate consists of two parts: distribution base and nonshared. Distribution base is the portion of the tax which is shared with counties and municipalities. (Refer to Tables 6 and 8.)

Two additional taxes, usually considered to be sales taxes, are use tax and rental occupancy tax. Use tax is imposed at 5% on all purchases of tangible personal property for which sales tax was not paid. Arizona businesses using items from their inventory are also subject to use tax. Rental occupancy tax is levied at 3% on real property on a long-term lease entered into before December 1, 1967.

The Pinal County residents voted in October, 1986 to create a Pinal County Transportation excise tax which is computed at 10% of the transaction privilege tax rates, with certain exceptions: severance tax, agriculture exemptions, rental occupancy tax, use tax, and telecommunication services excise tax. The effective date of tax is January 1, 1987. (Refer to Table 4.)

House Bill 2066, Chapter 38, authorized Pima County Board of Supervisors to impose a county transaction privilege tax of up to 1% of gross income or sales on hotels and motels. The tax was effective January 1, 1987.

DISTRIBUTION

The distribution base portion of the sales tax is shared with municipalities and counties in the State. 25% of the tax goes to the cities and towns based on population. Another 38.08% of the distribution base is distributed to counties by a formula based on assessed valuation and sales in each county. The remainder of the distribution base goes to the State General Fund. All other sales taxes are deposited in the State General Fund. (Refer to Tables 5, 24 and 25.)

SEVERANCE TAX

Laws of 1982, Chapter 230, repealed the sales taxes on metalliferous metals and timber products and replaced both taxes with severance taxes. (Refer to Table 6.)

The severance taxes are similar to the repealed sales taxes in administration, with the same due dates and forms. The rates are identical: 2.5% on mining, 1.5% on timbering. However, the severance tax is charged at the time of production, rather than the time of sale. In addition, the base for severance taxes on metalliferous minerals is the greater of the "weighted mineral value" (essentially the cost of extracting the minerals and delivering them to the processing site) or 50% of the old sales tax base.

MUNICIPAL SALES TAX COLLECTION PROGRAM

The Arizona Department of Revenue is authorized to collect municipal sales tax for Arizona cities and towns. The service is provided at no cost to the cities. The Department collects the local taxes and remits the amount collected to each city weekly. During 1986-87, 66 cities and towns participated in this program. (Refer to Tables 26 and 27.)

TABLE 4
GROSS SALES, USE & SEVERANCE TAX COLLECTIONS

SOURCE	1982-83	1983-84	1984-85	1985-86	1986-87
Distribution Base	$357,174,853	$ 412,072,734	$ 464,532,524	$ 490,395,472	$ 519,015,701
Nonshared	459,229,449	689,750,894	844,944,102	909,602,932	958,559,275
Use Tax	31,404,404	41,615,494	54,846,386	59,415,099	52,549,878
SUBTOTAL	847,808,706	1,143,439,125	1,364,323,012	1,459,413,503	1,530,124,854
911 Excise Tax	-----	-----	1,178,370	1,282,523	1,878,873
Telecommunications Devices	-----	-----	-----	456,638	538,744
Less: Collection Fees	-----	-----	(171,270)	(- 35,667) [1]	(133,834)
GROSS STATE COLLECTIONS	847,808,706	1,143,439,125	1,365,330,112	1,461,188,331	1,532,408,637
City Sales Tax	34,141,550	39,237,842	45,595,426	51,527,477	56,952,127
Maricopa County Road Tax	-----	-----	-----	37,005,284	94,830,790
Pinal County Road Tax	-----	-----	-----	-----	1,144,080
TOTAL DEPARTMENT OF REVENUE RECEIPTS	$881,950,256	$1,182,676,967	$1,410,925,538	$1,549,721,092	$1,685,335,634

[1] Collections fees for FY 85-86 show a positive figure due to a reimbursement for fees overpaid by the Department in previous years.

GROSS SALES, USE & SEVERANCE TAX COLLECTIONS

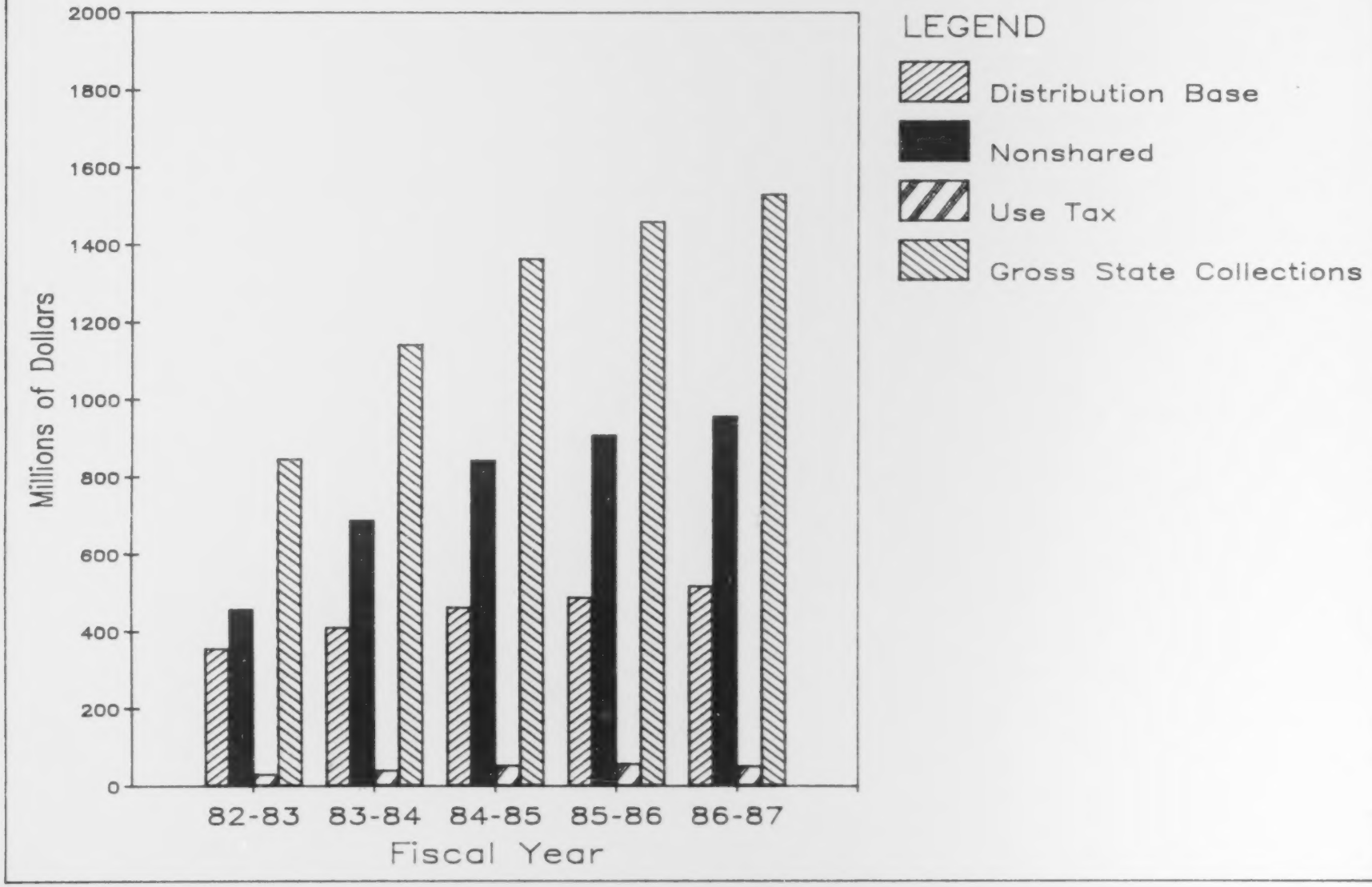
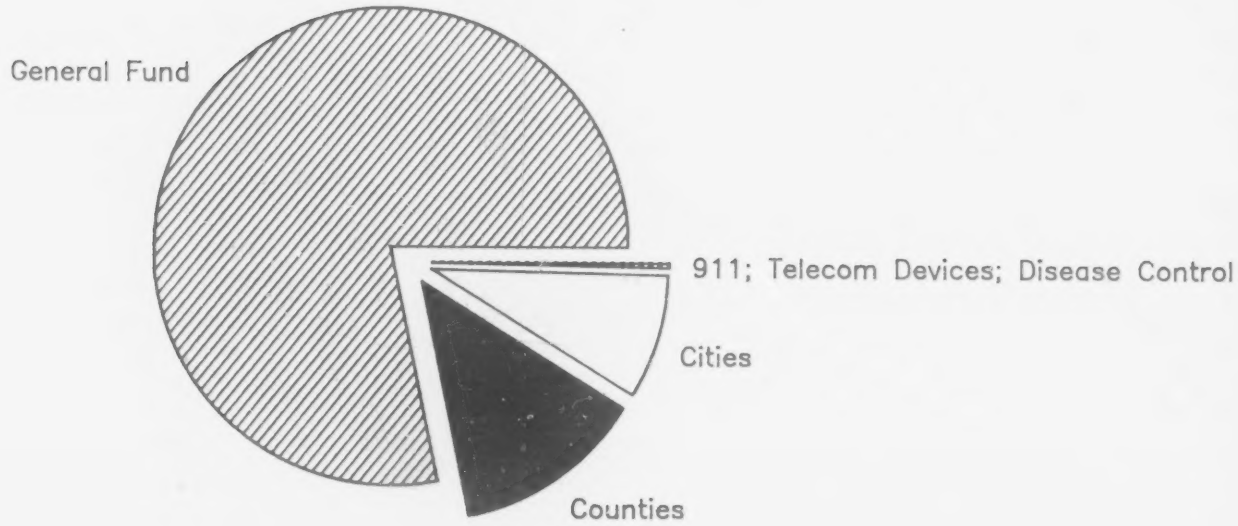


TABLE 5
DISTRIBUTION OF SALES TAX COLLECTIONS
1986-87

Net to State General Fund	$1,199,589,750[1]
Net to Cities	129,753,925
Net to Counties	197,641,179
Disease Control[1]	3,170,000
911 Excise, Telecommunications Devices	2,417,618
TOTAL GROSS COLLECTIONS	$1,532,572,472

[1] $2,270,000 was due to be paid to Disease Control in 86-87. The additional $900,000 is a correction of an error in the General Fund amount in FY 85-86. See the footnote in the FY 85-86 Annual Report for further clarification.

DISTRIBUTION OF SALES TAX COLLECTIONS



Fiscal Year 1986-87

TABLE 6
SALES AND SEVERANCE TAX RATES
1986-87

TAXABLE ACTIVITIES	DISTRIBUTION BASE	NONSHARED	TOTAL TAX
1. Transporting & Towing	1%	4%	5%
2. Mining, Oil & Gas (Nonmetalliferous)	1%	2.125%	3.125%
4. Utilities	1%	4%	5%
5. Communications	1%	4%	5%
6. Railroads & Aircraft	1%	4%	5%
7/8. Private Car/Pipelines	1%	4%	5%
9. Publishing	1%	4%	5%
10. Printing	1%	4%	5%
11. Restaurants & Bars	2%	3%	5%
12. Amusements	2%	3%	5%
13. Real Property Rentals	2%	1.75%	3.75%
14. Personal Property Rentals	2%	3%	5%
15. Contracting (Mtrl. only)	1%	4%	5%
16. Feed Wholesale	.25%	.21875%	.46875%
17. Retail	2%	3%	5%
19. Mining Severance	2%	.5%	2.5%
20. Timbering Severance	1.2%	.3%	1.5%
24. Prime Contracts entered into prior to May 1983	1%	3%	4%
25. Motel/Motel Tax	2%	2%	4%
26. Prime Contracts entered into prior to July 1974	1%	2.75%	3.75%
27. Agricultural Equipment and Machinery[1]	0%	2%	2%
28. Rental Occupancy Tax	2%	1%	3%
29/30. Use/Use Inventory Tax	0%	5%	5%
34. Prime Contracts entered into prior to October 1985	1%	4%	5%
35. Prime Contracts entered into prior to November 1986	1%	4%	5%

[1] Agricultural Equipment and Machinery will be phased out by 7/1/88.

TABLE 7
NET TAXABLE SALES
BY SALES TAX CLASSIFICATIONS

CLASSIFICATION	1982-83	% OF TOTAL	1983-84	% OF TOTAL	1984-85	% OF TOTAL	1985-86	% OF TOTAL	1986-87	% OF TOTAL
Transporting and Towing	$ 39,544,993	0.18	$ 24,929,381	0.10	$ 39,537,070	0.14	$ 20,081,552	0.07	$ 14,922,455	0.05
Mining, Oil and Gas	701,533,137	3.26	125,398,832	0.51	97,160,930	0.35	51,905,715	0.18	148,913,432	0.49
Mining Severance[1]	404,539,212	1.88	817,838,586	3.31	673,405,105	2.46	564,725,067	1.94	479,166,973	1.57
Mining Inventory[1]	96,436,942	0.45	171,921,855	0.70	5,556,618	0.02	-----	----	-----	----
Timbering[1]	28,566,640	0.13	16,412,829	0.07	40,585	0.00[4]	-----	----	6,322	0.00
Timbering Severance[1]	4,943,068	0.02	14,208,996	0.06	21,991,064	0.08	25,199,054	0.09	32,029,321	0.10
Utilities	2,421,231,822	11.27	2,425,813,700	9.83	2,769,070,659	10.11	2,923,250,155	10.03	2,895,843,655	9.47
Communications	617,688,371	2.87	549,061,992	2.22	564,670,401	2.06	608,624,412	2.09	743,710,309	2.43
Railroads and Aircraft	23,519,300	0.11	59,237,824	0.24	25,865,600	0.10	32,087,646	0.11	27,433,757	0.09
Private Car and Pipelines	1,097,106	0.01	1,060,174	0.00[4]	4,891,295	0.02	2,098,655	0.01	1,703,345	0.01
Publishing	174,240,373	0.81	75,924,109	0.31	70,517,036	0.26	58,505,068	0.20	56,990,286	0.19
Job Printing	259,925,051	1.21	224,519,057	0.91	227,963,894	0.83	359,412,160	1.23	294,494,396	0.96
Local Advertising[2]	126,960,483	0.59	398,976,791	1.62	521,300,738	1.90	386,559,578	1.33	2,019,771	0.01
Restaurants and Bars	1,707,636,745	7.95	1,780,585,679	7.21	2,089,040,364	7.63	2,288,763,194	7.86	2,495,947,895	8.16
Amusements	217,340,721	1.01	215,958,607	0.87	228,[illegible],817	0.83	208,425,050	0.72	256,567,864	0.84
Real Property Rentals	1,211,911,466	5.64	1,394,324,799	5.65	1,197,994,864	4.38	1,216,090,543	4.17	1,424,142,351	4.65
Personal Property Rentals	826,652,701	3.85	886,647,981	3.59	1,282,648,972	4.68	1,142,010,149	3.92	1,167,714,064	3.82
Contracting	2,278,537,499	10.60	3,156,115,311	12.79	3,670,815,088	13.41	4,216,936,438	14.47	4,652,177,267	15.21
Wholesale Feed	215,895,028	1.01	276,057,244	1.12	250,844,516	0.92	201,744,264	0.69	186,810,139	0.61
Retail	10,133,601,513	47.15	12,068,047,291	48.89	13,257,124,775	48.41	14,266,722,878	48.96	15,029,620,336	49.15
Hotel/Motel	-----	-----	274,847	----	387,005,772	1.41	530,216,128	1.82	631,782,728	2.07
Agricultural Equipment[3]	-----	----	-----	----	-----		33,490,097	0.11	37,286,366	0.12
TOTAL	$21,491,802,171	100.00	$24,683,315,885	100.00	$27,385,457,163	100.00	$29,136,847,803[5]	100.00	$30,579,283,032	100.00

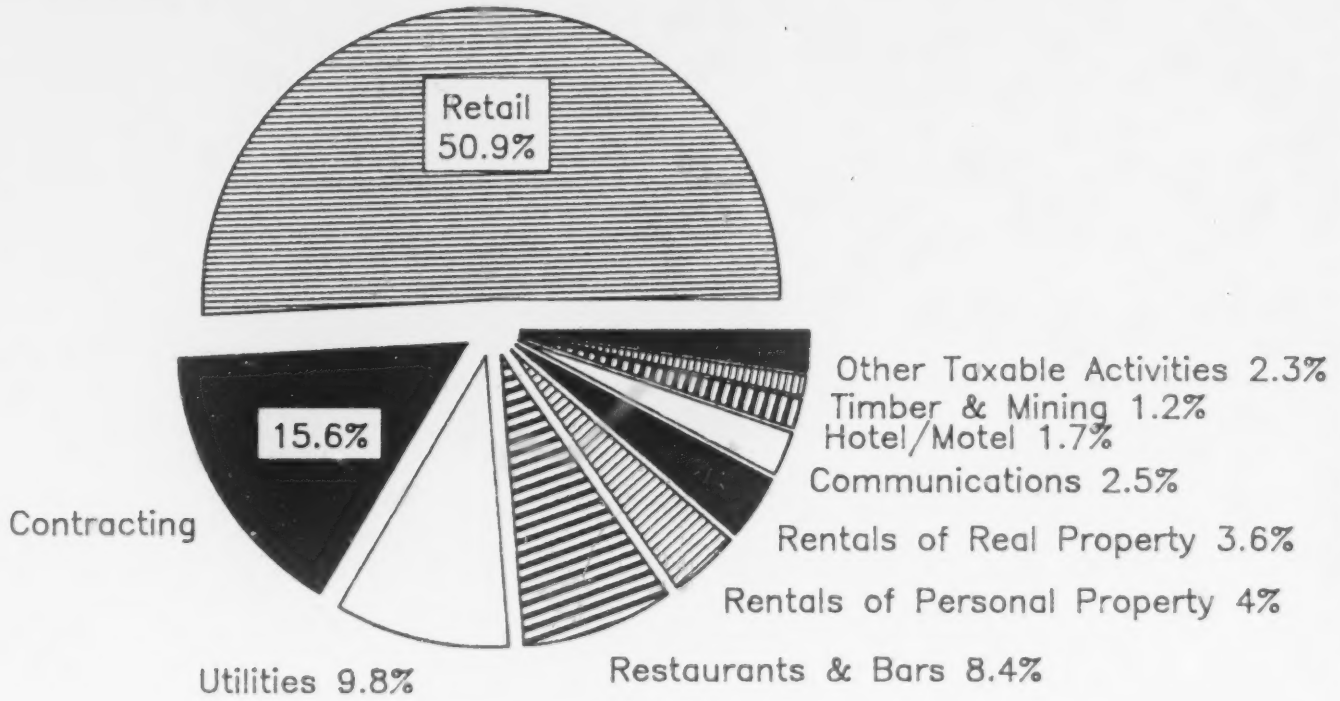
[1] Sales tax on timbering and metalliferous mining replaced by severance tax on January 1, 1983 (see Severance Tax Section).
[2] Local advertising designated a separate class on January 1, 1983. Phased out on January 1, 1986.
[3] Agricultural equipment designated a separate class on April 18, 1985 when tax rate dropped from 5% to 3%.
[4] Percent of total is less than 0.01% due to rounding.
[5] Net taxable sales are based on sales tax receipts net of the accounting allowance to the business firms. Effective July, 1985.

TABLE 8
SALES TAX COLLECTIONS BY CLASS

CLASSIFICATION	DISTRIBUTION BASE	NONSHARED	TOTAL SALES TAX COLLECTIONS
Transporting & Towing	$ 149,225	$ 596,020	$ 745,246
Nonmetal Mining, Oil & Gas Prod.	1,489,134	3,164,377	4,653,510
Mining Severance	9,583,238	2,395,936	11,979,174
Timber Severance	384,346	96,189	480,535
Utilities	28,958,438	115,830,866	144,789,304
Communications	7,437,104	29,752,231	37,189,335
Railroads & Aircraft	274,338	1,097,328	1,371,666
Private Cars & Pipelines	17,033	68,124	85,157
Publishing	569,904	2,279,170	2,849,075
Printing	2,944,954	11,768,826	14,713,780
Local Advertising	20,217	10,205	30,422
Restaurants & Bars	49,918,935	74,806,560	124,725,495
Amusements	5,131,356	7,623,795	12,755,150
Rentals of Real Property	28,481,099	24,903,386	53,384,485
Rentals of Personal Property	23,354,270	34,997,477	58,351,747
Contracting	46,521,906	184,143,951	230,665,857
Feed Wholesale	467,246	408,773	876,019
Retail	300,592,272	450,794,914	751,387,186
Hotel/Motel	12,635,687	12,635,622	25,271,309
Agricultural Equipment	-0-	789,649	789,649
Rental Occupancy Tax	84,999	42,494	127,493
Use Tax	-0-	52,549,878	52,549,878
License Fees	-0-	353,382	353,382
TOTAL	$519,015,701	$1,011,109,153	$1,530,124,854

Figures may not add to total due to rounding.

SALES TAX COLLECTIONS BY CLASS



Fiscal Year 1986-87

DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS BY COUNTY, BY TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS FOR FISCAL YEAR 1986-87

Tables 9 through 23 present by county the distribution base portion of sales tax collections. Each class of sales tax consists of two parts: distribution base and nonshared. The distribution base is only that portion which is shared among the State, counties and municipalities.

The classes of sales which are subject to the sales tax have been combined in some counties to comply with confidentiality laws. These classes will be combined in "other taxable activities".

The taxable income is the actual amount reported for a particular county. The following list shows all sales tax classes.

ACTIVITY/CLASS	DESCRIPTION
1.	Transporting & Towing
2.	Non-metal Mining, Oil & Gas Products
3.	Timbering
4.	Utilities
5.	Communications
6.	Railroads & Aircraft
7.	Private Car
8.	Pipelines
9.	Publishing
10.	Printing
11.	Restaurants & Bars
12.	Amusements
13.	Rentals of Real Property
14.	Rentals of Personal Property
15.	Contracting
16.	Feed Wholesale
17.	Retail
18.	Advertising
19.	Mining Severance
20.	Timber Severance
21.	Mining Inventory
22.	Timber Inventory
23.	Protested Restaurants
24.	Pre 5/83 Contracting
25.	Hotels/Motels
26.	Pre 7/74 Contracting
34.	Pre 10/85 Contracting
35.	Pre 11/86 Contracting

TABLE 9
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN APACHE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 10,142,407	1%	$ 101,424
5. Communications	6,273,541	1%	62,735
9. Publishing 10. Printing	380,311	1%	3,803
11. Restaurants and Bars	5,519,022	2%	110,380
12. Amusements	272,959	2%	5,459
13. Rentals Of Real Property	2,229,226	2%	44,582
14. Rentals Of Personal Property	1,650,219	2%	33,004
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	44,720,714	1%	447,207
17. Retail	69,945,548	2%	1,398,311
25. Hotel/Motel	2,364,488	2%	47,290
Other Taxable Activities	14,003,249		155,067
TOTAL	$157,501,687		$2,409,264

Figures may not add to total due to rounding.

TABLE 10
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN COCHISE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 70,339,833	1%	$ 703,398
5. Communications	15,224,849	1%	152,248
9. Publishing 10. Printing	1,475,007	1%	14,750
11. Restaurants and Bars	37,085,205	2%	741,704
12. Amusements	1,938,856	2%	38,777
13. Rentals Of Real Property	12,540,374	2%	250,792
14. Rentals Of Personal Property	9,851,213	2%	197,024
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	68,421,058	1%	684,211
17. Retail	251,511,845	2%	5,030,236
25. Hotel/Motel	8,724,868	2%	174,499
Other Taxable Activities	9,120,907		88,892
TOTAL	$486,234,015		$8,076,532

Figures may not add to total due to rounding.

TABLE 11
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN COCONINO COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 69,130,727	1%	$ 691,307
5. Communications	17,586,328	1%	175,863
9. Publishing 10. Printing	3,178,049	1%	31,780
11. Restaurants and Bars	102,436,357	2%	2,048,727
12. Amusements	20,863,819	2%	417,276
13. Rentals Of Real Property	34,285,241	2%	685,663
14. Rentals Of Personal Property	24,759,050	2%	495,181
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	99,776,346	1%	997,764
17. Retail	367,793,871	2%	7,355,877
25. Hotel/Motel	64,191,579	2%	1,283,835
Other Taxable Activities	22,536,901		254,881
TOTAL	$826,538,269		$14,438,156

Figures may not add to total due to rounding.

TABLE 12
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN GILA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 63,199,081	1%	$ 631,991
5. Communications	6,693,469	1%	66,935
9. Publishing 10. Printing	784,628	1%	7,846
11. Restaurants and Bars	23,080,488	2%	461,610
12. Amusements	1,125,752	2%	22,515
13. Rentals Of Real Property	3,219,548	2%	64,387
14. Rentals Of Personal Property	4,121,510	2%	82,430
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	24,598,416	1%	245,984
17. Retail	100,224,482	2%	2,004,489
25. Hotel/Motel	4,286,745	2%	85,736
Other Taxable Activities	101,379,507		1,972,372
TOTAL	$332,713,623		$5,646,295

Figures may not add to total due to rounding.

TABLE 13
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN GRAHAM COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
5. Communications	$ 3,162,901	1%	$ 31,629
9. Publishing 10. Printing	581,926	1%	5,819
11. Restaurants and Bars	8,053,794	2%	161,076
12. Amusements	258,252	2%	5,165
13. Rentals Of Real Property	2,043,561	2%	40,869
14. Rentals Of Personal Property	2,413,085	2%	48,262
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	10,708,853	1%	107,088
17. Retail	60,156,685	2%	1,203,134
25. Hotel/Motel	1,180,868	2%	23,618
Other Taxable Activities	14,076,262		135,961
TOTAL	$102,636,186		$1,762,621

Figures may not add to total due to rounding.

TABLE 14
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN GREENLEE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
11. Restaurants and Bars	$ 2,186,351	2%	$ 43,727
13. Rentals Of Real Property 25. Hotel/Motel	643,907	2%	12,878
14. Rentals Of Personal Property	772,166	2%	15,443
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	19,056,209	1%	190,562
17. Retail	30,076,509	2%	601,530
Other Taxable Activities	105,064,697		2,510,764
TOTAL	$157,799,840		$3,374,904

Figures may not add to total due to rounding.

TABLE 15
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN LA PAZ COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
5. Communications	$ 3,165,577	1%	$ 31,656
11. Restaurants and Bars	12,484,746	2%	249,695
12. Amusements	289,857	2%	5,797
13. Rentals Of Real Property	3,498,838	2%	69,973
14. Rentals Of Personal Property	1,610,655	2%	32,213
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/84 Contracting	10,033,447	1%	100,335
17. Retail	58,848,149	2%	1,176,963
25. Hotel/Motel	1,143,810	2%	22,876
Other Taxable Activities	12,769,911		126,987
TOTAL	$103,844,990		$1,816,495

Figures may not add to total due to rounding.

TABLE 16
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN MARICOPA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 1,765,422,942	1%	$ 17,654,229
5. Communications	483,744,045	1%	4,837,440
9. Publishing 10. Printing	272,939,613	1%	2,729,407
11. Restaurants and Bars	1,564,792,647	2%	31,295,832
12. Amusements	169,378,242	2%	3,387,563
13. Rentals Of Real Property	1,059,250,072	2%	21,183,700
14. Rentals Of Personal Property	861,458,168	2%	17,229,154
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting 34. Pre-10/85 Contracting	3,227,141,299	1%	32,271,544
17. Retail	9,925,091,885	2%	198,501,713
25. Hotel/Motel	349,326,959	2%	6,986,550
Other Taxable Activities	100,281,363		492,482
TOTAL	$19,778,827,235		$336,569,616

Figures may not add to total due to rounding.

TABLE 17
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN MOHAVE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 67,885,459	1%	$ 678,855
5. Communications	14,732,112	1%	147,321
9. Publishing 10. Printing	2,840,737	1%	28,407
11. Restaurants and Bars	52,650,837	2%	1,053,017
12. Amusements	6,212,045	2%	125,441
13. Rentals Of Real Property	17,579,186	2%	351,563
14. Rentals Of Personal Property	12,453,113	2%	249,062
15. Contracting 24. Pre-5/73 Contracting 26. Pre-7/74 Contracting	72,707,326	1%	727,073
17. Retail	266,762,048	2%	5,335,240
25. Hotel/Motel	24,637,445	2%	492,751
Other Taxable Activities	29,039,676		566,596
TOTAL	$567,499,984		$9,755,325

Figures may not add to total due to rounding.

TABLE 18
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN NAVAJO COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 35,830,228	1%	$ 358,302
5. Communications	13,690,761	1%	136,908
9. Publishing 10. Printing	1,371,489	1%	13,715
11. Restaurants and Bars	[illegible],695,425	2%	593,908
12. Amusements	1,536,102	2%	30,722
13. Rentals Of Real Property	7,321,525	2%	146,422
14. Rentals Of Personal Property	5,018,296	2%	100,366
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	43,217,079	1%	432,171
17. Retail	260,310,555	2%	5,206,210
25. Hotel/Motel	11,712,467	2%	234,252
Other Taxable Activities	80,225,808		795,731
TOTAL	$489,929,734		$8,048,707

Figures may not add to total due to rounding.

TABLE 19
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN PIMA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 478,582,370	1%	$ 4,785,824
5. Communications	130,814,126	1%	1,308,141
9. Publishing 10. Printing	55,361,391	1%	553,614
11. Restaurants and Bars	489,176,685	2%	9,783,533
12. Amusements	42,414,569	2%	848,291
13. Rentals Of Real Property	228,062,471		4,560,967
14. Rentals Of Personal Property	203,540,456	2%	4,070,808
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	713,206,593	1%	7,132,067
17. Retail	2,635,690,093	2%	52,713,799
25. Hotel/Motel	126,293,053	2%	2,525,866
Other Taxable Activities	126,029,790		1,987,455
TOTAL	$5,229,171,598		$90,270,365

Figures may not add to total due to rounding.

TABLE 20
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN PINAL COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 98,394,644	1%	$ 983,947
5. Communications	13,219,288	1%	132,193
9. Publishing 10. Printing	4,675,877	1%	49,459
11. Restaurants and Bars	43,297,928	2%	865,958
12. Amusements	5,083,383	2%	101,668
13. Rentals Of Real Property	12,002,648	2%	240,039
14. Rentals Of Personal Property	9,622,707	2%	192,454
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting 35. Pre-11/86 Contracting	133,805,162	1%	1,338,053
17. Retail	245,275,168	2%	4,905,501
25. Hotel/Motel	5,248,865	2%	104,978
Other Taxable Activities	197,941,642		2,902,949
TOTAL	$768,567,310		$11,817,198

Figures may not add to total due to rounding.

TABLE 21
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN SANTA CRUZ COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 14,445,253	1%	$ 144,452
5. Communications	4,954,118	1%	49,541
9. Publishing 10. Printing	385,989	1%	3,860
11. Restaurants and Bars	16,011,232	2%	320,225
12. Amusements	1,153,292	2%	23,066
13. Rentals Of Real Property	7,309,642	2%	146,184
14. Rentals Of Personal Property	3,634,972	2%	72,700
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	11,142,333	1%	111,423
17. Retail	101,570,225	2%	2,031,405
25. Hotel/Motel	6,257,102	2%	125,143
Other Taxable Activities	891,353		5,989
TOTAL	$167,755,512		$3,033,987

Figures may not add to total due to rounding.

TABLE 22
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN YAVAPAI COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 84,429,592	1%	$ 844,296
5. Communications	14,103,074	1%	141,031
9. Publishing 10. Printing	3,700,149	1%	37,002
11. Restaurants and Bars	58,275,417	2%	1,165,508
12. Amusements	2,695,373	2%	53,907
13. Rentals Of Real Property	19,438,372	2%	388,744
14. Rentals Of Personal Property	9,669,457	2%	193,389
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	87,420,033	1%	874,200
17. Retail	294,156,146	2%	5,883,122
25. Hotel/Motel	11,269,072	2%	225,384
Other Taxable Activities	57,895,424		876,561
TOTAL	$643,052,109		$10,683,144

Figures may not add to total due to rounding.

TABLE 23
DISTRIBUTION BASE PORTION OF SALES TAX COLLECTIONS
IN YUMA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 1986 AND ENDING JUNE 30, 1987

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	NET TAXABLE INCOME REPORTED	RATE	SALES TAX COLLECTED
4. Utilities	$ 77,446,830	1%	$ 774,468
5. Communications	14,411,618	1%	144,116
9. Publishing 10. Printing	3,307,173	1%	33,072
11. Restaurants and Bars	51,201,761	2%	1,024,035
12. Amusements	3,114,900	2%	62,298
13. Rentals Of Real Property	14,978,597	2%	299,553
14. Rentals Of Personal Property	17,138,997	2%	342,780
15. Contracting 24. Pre-5/83 Contracting 26. Pre-7/74 Contracting	86,222,399	1%	862,224
17. Retail	362,207,128	2%	7,244,142
25. Hotel/Motel	14,884,521	2%	297,692
Other Taxable Actvitites	44,556,473		141,851
TOTAL	$689,470,398		$11,226,231

Figures may not add to total due to rounding.

TABLE 24
STATE SALES TAX DISTRIBUTION TO COUNTIES
1982-83 Through 1986-87

COUNTY	1982-83	1983-84[1]	1984-85[2]	1985-86	1986-87
Apache	$ 1,455,844	$ 2,341,551	$ 2,077,604	$ 2,413,543	$ 2,855,747
Cochise	3,001,113	4,173,538	3,497,233	3,493,498	3,431,334
Coconino	4,501,111	6,509,616	5,127,191	5,471,965	5,610,720
Gila	2,104,311	2,630,814	2,188,305	2,324,779	2,136,012
Graham	681,888	961,069	768,085	720,315	687,487
Greenlee	1,237,226	1,634,560	1,121,539	1,040,083	1,026,409
La Paz	334,842	902,152	689,938	830,669	795,295
Maricopa	79,034,386	102,639,877	107,426,813	116,405,844	124,891,722
Mohave	3,065,166	4,660,702	3,817,772	3,980,503	4,164,980
Navajo	3,842,879	5,447,169	4,063,731	3,997,581	4,506,484
Pima	24,896,433	32,670,034	30,065,337	31,966,001	33,291,637
Pinal	3,835,370	5,445,341	4,113,823	4,292,030	4,412,252
Santa Cruz	885,976	1,239,676	1,146,961	1,158,205	1,180,945
Yavapai	3,626,040	5,282,339	4,162,873	4,710,438	4,751,896
Yuma	3,448,511	4,716,579	3,912,478	3,869,368	3,898,260
TOTAL	$135,951,094	$181,255,017	$174,179,683	$186,674,822	$197,641,179

County distributions are based on relative assessed valuation and sales in the county.

Figures may not add to totals due to rounding

[1] FY 1983-84 includes a $25 million appropriation which was distributed monthly with the counties' shares of the Distribution Base.

[2] Prior to FY 85-86, counties were reimbursed for 100% of their loss from removal of the tax on food.

TABLE 25
STATE SALES TAX DISTRIBUTION TO MUNICIPALITIES
FOR FISCAL YEAR 1986-87

CITIES BY COUNTY	AMOUNT	TOTAL
APACHE		
Eagar	$214,866	
St. Johns	180,872	
Springerville	100,908	$496,646
COCHISE		
Benson	$ 228,292	
Bisbee	384,192	
Douglas	701,255	
Huachuca City	89,201	
Sierra Vista	1,546,005	
Tombstone	87,643	
Willcox	174,159	$3,210,747
COCONINO		
Flagstaff	$2,053,982	
Fredonia	55,851	
Page	347,405	
Williams	121,691	$2,578,930
GILA		
Globe	$369,800	
Hayden	64,712	
Miami	145,858	
Payson	376,083	
Winkelman	56,925	$1,013,377
GRAHAM		
Pima	85,871	
Safford	376,459	
Thatcher	184,524	$646,854
GREENLEE		
Clifton	$227,970	
Duncan	32,383	$260,353
LA PAZ		
Parker	$136,513	$136,513
MARICOPA		
Avondale	$ 521,135	
Buckeye	202,944	
Carefree	81,521	
Cave Creek	101,136	
Chandler	3,427,171	
El Mirage	231,299	
Gila Bend	107,352	
Gilbert	649,915	
Glendale	6,572,829	
Goodyear	246,927	
Guadalupe	247,518	
Mesa	12,866,564	
Paradise Valley	634,663	
Peoria	1,482,098	
Phoenix	47,346,799	
Scottsdale	5,823,940	
Surprise	215,886	
Tempe	7,139,397	
Tolleson	238,334	
Wickenburg	210,785	
Youngtown	122,819	$88,471,033
MOHAVE		
Bullhead City	$917,840	
Colorado City	112,723	
Kingman	560,016	
Lake Havasu City	953,176	$2,543,755
NAVAJO		
Holbrook	$310,672	
Pinetop-Lakeside	128,297	
Show Low	269,965	
Snowflake	196,339	
Taylor	107,728	
Winslow	425,382	$1,438,384
PIMA		
Marana	$ 89,899	
Oro Valley	153,913	
South Tucson	351,970	
Tucson	19,303,618	$19,899,400
PINAL		
Apache Junction	$766,827	
Casa Grande	840,292	
Coolidge	367,920	
Eloy	335,107	
Florence	327,267	
Kearny	142,098	
Mammoth	102,358	
Superior	247,034	$3,128,904
SANTA CRUZ		
Nogales	$842,226	
Patagonia	52,629	$894,855
YAVAPAI		
Camp Verde	$ 132,961	
Chino Valley	204,985	
Clarkdale	91,080	
Cottonwood	268,999	
Jerome	25,240	
Prescott	1,066,812	
Prescott Valley	293,810	$2,083,888
YUMA		
San Luis	$ 150,852	
Somerton	235,273	
Wellton	50,481	
Yuma	2,513,681	$2,950,286
TOTAL	$129,753,925	$129,753,925

City distributions are based on relative population.
Figures may not add to totals due to rounding.

TABLE 26
MUNICIPAL SALES TAX COLLECTION PROGRAM
COLLECTIONS BY CITY
FOR FISCAL YEAR 1986-87

CITY	RATE (PERCENT)	COLLECTIONS	CITY	RATE (PERCENT)	COLLECTIONS
Apache Junction [1]	1,3	$2,009,258.29	Oro Valley	2	516,097.65
Avondale	1	582,229.22	Page	1	742,808.72
Benson	2	634,338.03	Paradise Valley	1	1,547,476.31
Bisbee	2	590,374.97	Parker	2,1	494,465.70
Buckeye	1	241,449.13	Payson	2	1,485,637.61
Bullhead City	1	1,310,237.06	Pima	1	41,519.15
Carefree	1	320,187.12	Pinetop-Lakeside	2	1,066,294.40
Cave Creek [2]	1.5,1	48,821.47	Prescott Valley	1	370,360,47
Casa Grande	1.5,2	2,803,338.46	Safford	1	719,142.66
Chino Valley	1	121,616.50	St. Johns	1	177,934.42
Clarkdale	1	85,296.85	San Luis	2	324,811.38
Clifton	1	71,945.72	Show Low	2	1,640,966.57
Coolidge	2,1.5	906,333.50	Sierra Vista	1	1,965,377.36
Cottonwood	1	911,312.40	Snowflake	2	329,778.51
Douglas	2	1,477,143.95	Somerton	2	134,133.54
Duncan	2	64,098.99	South Tucson	2	1,051,024.00
Eagar	2	209,627.32	Springerville	2	670,979.57
El Mirage	2	351,866.20	Superior	1	59,581.32
Eloy	1.5,2	456,346.10	Surprise	1	258,271.98
Florence	2	203,828.76	Taylor	1	41,868.64
Fredonia	1	24,988.86	Thatcher	1	228,846.62
Gila Bend	2,1	276,456.55	Tolleson	2	449,975.06
Gilbert	1	1,600,129.04	Tombstone	2	155,147.84
Glendale	1	12,264,812.64	Wellton	2	171,543.66
Globe	1	558,081.43	Wickenburg	1	631,420.15
Goodyear	1	651,937.53	Willcox	2	510,881.56
Guadalupe	2,1	241,952.37	Williams	3,2	567,490.64
Holbrook	2,1	886,898.69	Winkelman [2]	2	22,244.46
Huachuca City	1	67,450.48	Winslow	2,1	940,722.46
Jerome	2	68,579.01	Youngtown	1	176,005.59
Kearny	1	105,309.10	Yuma	1	4,892,382.02
Kingman	2,1	2,511,597.75			
Lake Havasu	1	1,733,542.91			
Marana	2	118,920.01	TOTAL		$56,952,126.73
Miami	1	56,630.30			==========

[1] A tax rate of 1.5% was in effect from 5/26/86 through 12/31/86 and a tax rate of 1% was in effect from 1/1/87 through the end of FY 86/87.

[2] A new member of the Municipal Sales Tax Collection Program.

TABLE 27
MUNICIPAL SALES TAX COLLECTION PROGRAM
1975-76 through 1986-87

FISCAL YEAR	TOTAL COLLECTIONS	NUMBER OF CITIES IN PROGRAM
1975-76	10,679,373	37
1976-77	12,979,383	40
1977-78	16,107,372	43
1978-79	20,708,038	50
1979-80	24,024,045	52
1980-81	27,408,078	57
1981-82	31,132,392	59
1982-83	34,141,550	59
1983-84	39,237,842	60
1984-85	45,595,426	64
1985-86	51,527,477	64
1986-87	56,952,127	66

CORPORATE INCOME TAX

MAJOR FEATURES

Corporations use federal taxable income as a starting point to compute Arizona taxable income. In computing Arizona taxable income, a corporation may deduct Federal and Arizona income taxes. Corporate income tax is levied on Arizona taxable income at rates graduated from 2.5% on income under $1,000 to 10.5% on income over $6,000. (Refer to Table 28.)

The Uniform Division of Income for Tax Purposes Act (UDITPA), adopted in 1984, aligned Arizona's corporate income tax provisions in step with thirteen other states enacting UDITPA. The law was passed to simplify the filing of corporate taxes and to increase the uniformity among large multistate businesses. It defined a foreign corporation to include a domestic corporation which derives less than 20% of its federal gross income from sources within the United States.

DISTRIBUTION

State corporate income tax collections are shared with Arizona municipalities as Urban Revenue Sharing. Each year, 15% of net collections from two years prior is distributed to the cities and towns. The remainder is deposited in the State General Fund after amounts sufficient to pay refunds are deposited into the income tax funds. (Refer to Tables 31 and 32.)

INDIVIDUAL INCOME TAX

MAJOR FEATURES

Arizona income tax calculations use federal adjusted gross income as a starting point to compute taxable income. Individuals are allowed to deduct Federal and Arizona income taxes paid. (Refer to Table 28.)

Individual rates are graduated from a minimum of 2% on individual income of $1,155, or joint income of $2,310, to a maximum of 8% on individual income over $6,930, or joint income over $13,860. Individual tax brackets are annually indexed for inflation.

The maximum allowable renter's tax credit for a full-year renter is 5% of the total rent paid, not to exceed $100. The maximum solar energy credit allowed for the 1986 tax year was 20% of the cost of the solar device, not to exceed $1,000. This credit decreases at a rate of 5% of the cost of the device per year and is scheduled to expire after December 31, 1987. The property tax credit is a refundable income tax credit granted to persons over 65 with incomes that do not exceed $3751 for persons living alone or $5501 for persons living with a spouse or other person. The amount of the credit reduces as income increases from zero to the maximum limit but cannot exceed the actual amount of property taxes paid by the taxpayer.

Arizona withholds individual income tax from wages at rates of 10%, 15%, or 20% of federal withholding: the 20% being optional, 15% mandatory on wages of $15,000 or greater annually, and 10% on wages less than $15,000. Beginning in 1985, an individual is not required to make estimated income tax payments;

however, anyone can voluntarily make estimated payments. As of the 1985 tax year, income tax refunds can be applied to the next year's income taxes.

Tables in this section highlight income tax collections and distributions, as well as two features of the individual income tax: 1) changes in exemptions, deductions and credits indexed to inflation, and 2) several credits which directly reduce individual tax liability. (Refer to Tables 29 and 30.)

DISTRIBUTION

State income tax collections are shared with Arizona municipalities as Urban Revenue Sharing. Each year, 15% of net collections from two years prior is distributed to the cities and towns. The remainder is deposited in the State General Fund after amounts sufficient to pay refunds are deposited into the income tax fund. (Refer to Tables 31 and 32.)

TABLE 28
INCOME TAX COLLECTIONS

SOURCE	1982-83	1983-84	1984-85	1985-86	1986-87	PERCENT OF NET COLLECTIONS IN 1986-87
Withheld from Wages						
Gross Revenue	$400,596,831	$418,869,050	$520,151,450	$576,701,782	$599,660,202	
Refunds and Charge-offs	114,510,586	123,334,520	146,748,025	148,652,578	171,542,248	
Net	286,086,245	295,534,530	373,403,425	428,049,204	428,117,954	44.58
Individual & Fiduciaries						
Gross Revenue	195,584,283	231,658,295	254,354,660	275,161,560	333,498,960	
Refunds and Charge-offs	954,771	485,298	1,513,779	253,964	195,226	
Net	194,629,512	231,172,997	252,840,881	274,907,596	333,303,734	34.70
Corporations						
Gross Revenue	169,039,740	207,341,166	215,436,786	213,236,463	249,213,473	
Refunds and Charge-offs	8,642,778	9,454,969	13,159,631	44,553,812	50,264,849	
Net	160,396,962	197,886,197	202,277,155	168,682,651	198,948,625	20.72
Sub-Total Net Collections	641,112,719	724,593,724	828,521,461	871,639,451	960,370,313	
Less distributions for:						
Urban Revenue Sharing	67,463,090	91,085,500	97,206,149	99,574,591	124,212,169	
Contracted Collection Agency	----	22,315	58,257	127,478	133,834	
Wildlife Contributions	----	238,370	231,923	228,176	244,496	
Child Abuse Prevention	----	----	150,154[1]	260,616	278,754	
Sub-Total Distributions	67,463,090	91,085,500	97,646,483	100,190,861	124,869,253	
NET REVENUE TO STATE GENERAL FUND	$573,649,629	$633,247,539	$730,874,978	$771,448,590	$835,501,060	

1 Effective for tax years beginning from and after December 31, 1984.

NET INCOME TAX COLLECTIONS

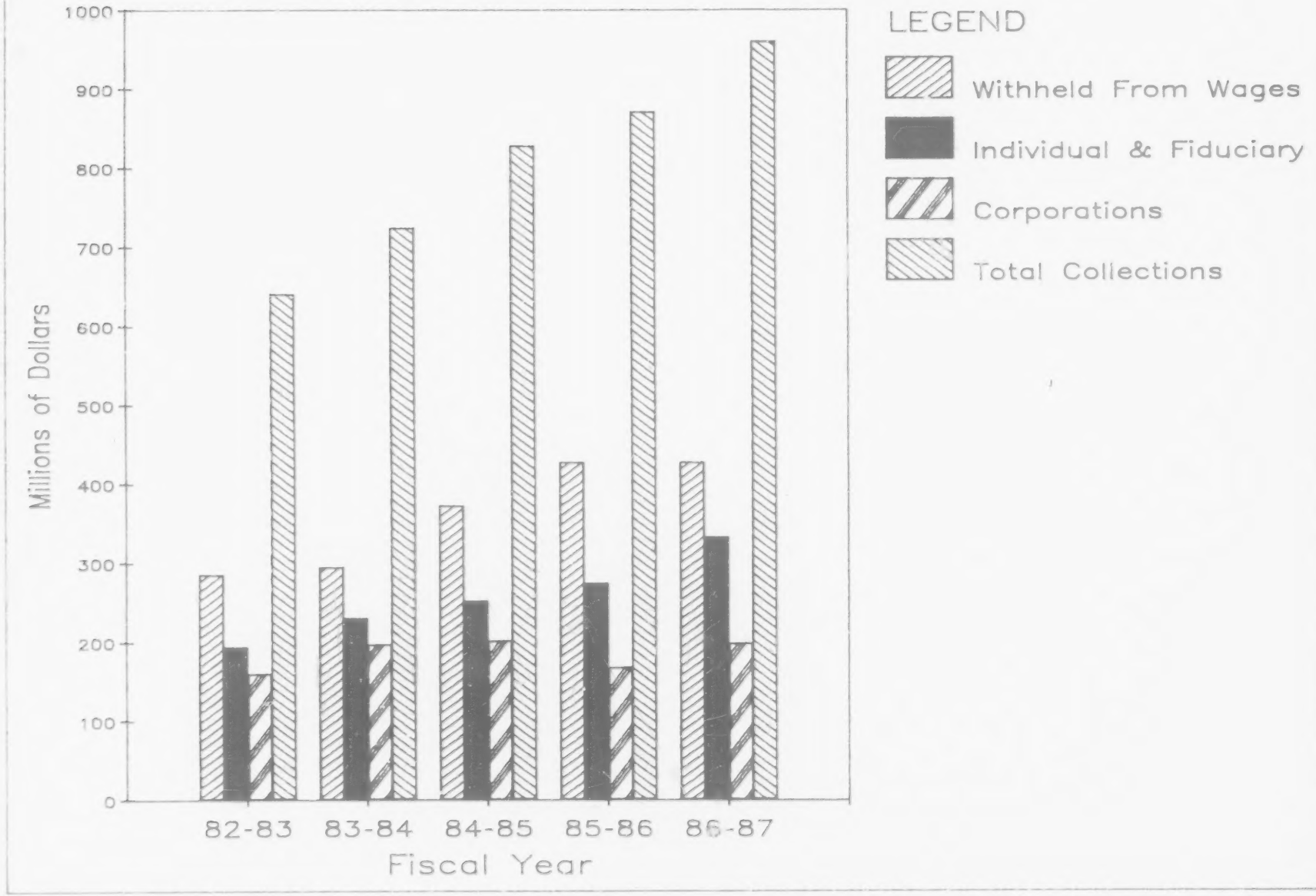


TABLE 29
EXEMPTIONS, DEDUCTIONS & CREDITS INDEXED TO INFLATION

TAX YEAR	PERSONAL EXEMPTION	BLIND EXEMPTION	AGE 65 AND OVER EXEMPTION	DEPENDENT EXEMPTION	STANDARD DEDUCTION %	STANDARD DEDUCTION LIMIT[1]	MAXIMUM RENTER'S CREDIT	MAXIMUM PROPERTY TAX CREDIT
1977 (base year)	$1,000	$500	$1,000	$600	10.00	$500/$1,000	$50	$225
1978	1,101	551	1,101	661	11.00	551/1,101	83[2]	248
1979	1,226	613	1,226	736	12.00	613/1,226	92	276
1980	1,422	711	1,422	854	14.00	711/1,422	107	320
1981	1,589	795	1,589	954	16.00	795/1,589	120	358
1982	1,729	865	1,729	1,038	17.00	865/1,729	130	389
1983	1,759	880	1,759	1,056	18.00	880/1,759	132	396
1984	1,834	917	1,834	1,100	18.00	917/1,834	100[3]	413[4]
1985	1,941	971	1,941	1,165	19.40	971/1,941	100	437
1986	1,996	998	1,996	1,198	19.96	998/1,996	100	449

[1] Amounts shown are for individual and married-filing-jointly returns.
[2] Base for renter's credit changed to $75 in 1978.
[3] As of the 1984 tax year the renter's tax credit is 5% of rents paid or $100, whichever is less.
[4] As of the 1984 tax year the property tax credit is capped based on the actual property tax paid.

TABLE 30
SELECTED INDIVIDUAL INCOME TAX CREDITS

CREDIT	1983-1984 CLAIMANTS	1983-1984 CREDITS	1984-1985 CLAIMANTS	1984-1985 CREDITS	1985-1986 CLAIMANTS	1985-1986 CREDITS	1986-1987 CLAIMANTS	1986-1987 CREDITS
Energy Conservation[1]	58,306	$26,177,237[2]	35,022	$23,241,259[2]	34,441	$22,156,078	26,566	$17,123,718
Property Tax	46,184	14,996,364			28,018	5,690,454	28,682	6,012,423
Renter's	278,134	35,416,672	259,775	28,939,761[3]	242,678	22,134,552	243,917	22,300,377
TOTAL CREDITS		$76,590,273		$52,181,020		$49,981,084		$45,436,518

[1] Includes residential insulation credit, solar development credit and commercial solar credit. For tax beginning from and after December 31, 1984, income tax credit for installation of residential insulation and devices has been repealed.

[2] Total miscellaneous credits: includes foreign tax credits and energy conservation credits.

[3] In order to make room for additional items on the form, these credits were combined and cannot be presented individually. Effective 84-85, the legal eligibility requirements for both the property tax and renter's credits were changed and resulted in a lower number of claimants and the reduction in the average credit per claim.

TABLE 31
DISTRIBUTION OF INCOME TAX AS URBAN REVENUE SHARING TO MUNICIPALITIES IN 1986-87

CITIES BY COUNTY	AMOUNT	% OF TOTAL
APACHE		
Eagar	$ 206,167	0.1660%
Springerville	96,822	0.0779
St. Johns	173,549	0.1397
COCHISE		
Benson	219,050	0.1764
Bisbee	368,638	0.2968
Douglas	672,865	0.5417
Huachuca City	85,590	0.0689
Sierra Vista	1,483,416	1.1943
Tombstone	84,095	0.0677
Willcox	167,108	0.1345
COCONINO		
Flagstaff	1,970,828	1.5867
Fredonia	53,590	0.0431
Page	333,341	0.2684
Williams	116,765	0.0940
GILA		
Globe	354,828	0.2857
Hayden	62,092	0.0500
Miami	139,953	0.1127
Payson	360,857	0.2905
Winkelman	54,621	0.0440
GRAHAM		
Pima	82,395	0.0663
Safford	361,218	0.2908
Thatcher	177,053	0.1425
GREENLEE		
Clifton	218,740	0.1761
Duncan	31,072	0.0250
LA PAZ		
Parker	130,987	0.1055
MARICOPA		
Avondale	500,037	0.4026
Buckeye	194,728	0.1568
Carefree	78,221	0.0630
Cave Creek	-0-	
Chandler	3,288,423	2.6474
El Mirage	221,935	0.1787
Gila Bend	103,006	0.0829
Gilbert	623,603	0.5020
Glendale	6,306,732	5.0774
Goodyear	236,930	0.1907
Guadalupe	237,497	0.1912
Mesa	12,345,668	9.9392
Paradise Valley	608,969	0.4903
Peoria	1,422,096	1.1449
Phoenix	45,429,989	36.5745
Scottsdale	5,588,161	4.4989
Surprise	207,146	0.1668
Tempe	6,850,362	5.5150
Tolleson	228,685	0.1841
Wickenburg	202,251	0.1628
Youngtown	117,847	0.0949

CITIES BY COUNTY	AMOUNT	% OF TOTAL
MOHAVE		
Bullhead City	$ 880,681	0.7090%
Colorado City	108,159	0.0871
Kingman	537,344	0.4326
Lake Havasu City	914,587	0.7363
NAVAJO		
Holbrook	298,095	0.2400
Pinetop-Lakeside	123,103	0.0991
Show Low	259,036	0.2085
Snowflake	188,390	0.1517
Taylor	103,367	0.0832
Winslow	408,161	0.3286
PIMA		
Marana	86,259	0.0694
Oro Valley	147,682	0.1189
South Tucson	337,721	0.2719
Tucson	18,458,004	14.8601
PINAL		
Apache Junction	735,782	0.5924
Casa Grande	806,274	0.6491
Coolidge	353,025	0.2842
Eloy	321,541	0.2589
Florence	314,017	0.2528
Kearny	136,346	0.1098
Mammoth	98,214	0.0791
Superior	237,033	0.1908
SANTA CRUZ		
Nogales	808,129	0.6506
Patagonia	50,498	0.0407
YAVAPAI		
Camp Verde	-0-	
Chino Valley	196,686	0.1583
Clarkdale	87,393	0.0704
Cottonwood	258,109	0.2078
Jerome	24,219	0.0195
Prescott	1,023,623	0.8241
Prescott Valley	281,915	0.2270
YUMA		
San Luis	144,745	0.1165
Somerton	225,748	0.1817
Wellton	48,437	0.0390
Yuma	2,411,916	1.9418
TOTAL	$124,212,169	100.0000%

TABLE 32
URBAN REVENUE SHARING

FISCAL YEAR	AMOUNT
1975-76	26,558,140
1976-77	30,313,600
1977-78	31,405,355
1978-79	36,356,905
1979-80	42,997,581
1980-81	53,942,465
1981-82	65,083,596
1982-83	73,596,099
1983-84	83,061,596
1984-85	96,166,908
1985-86	108,637,795[1]
1986-87	124,212,169

[1] Distributed in FY 85-86. $99,574,591 came from FY 85-86 receipts. The remaining $9,063,204 was set aside from FY 84-85 receipts.

LUXURY TAX

Arizona's luxury tax, applied to tobacco product distributors and liquor wholesalers, provides the State with additional revenue for unemployment and welfare relief.

Effective July 1, 1984, a Corrections Fund was established under A.R.S. Section 41-1651. During the 1986-87 fiscal year, $22,469,984 from total luxury tax monies collected was deposited in the Corrections Fund. The remaining $69,568,718 was deposited in the State General Fund. (Refer to Table 33.)

The Department is responsible for issuing licenses and collecting taxes on tobacco products and alcoholic beverages. In addition, the Department, with assistance from the Department of Public Safety, investigates and confiscates contraband alcoholic beverages and tobacco products illegally distributed through commercial channels.

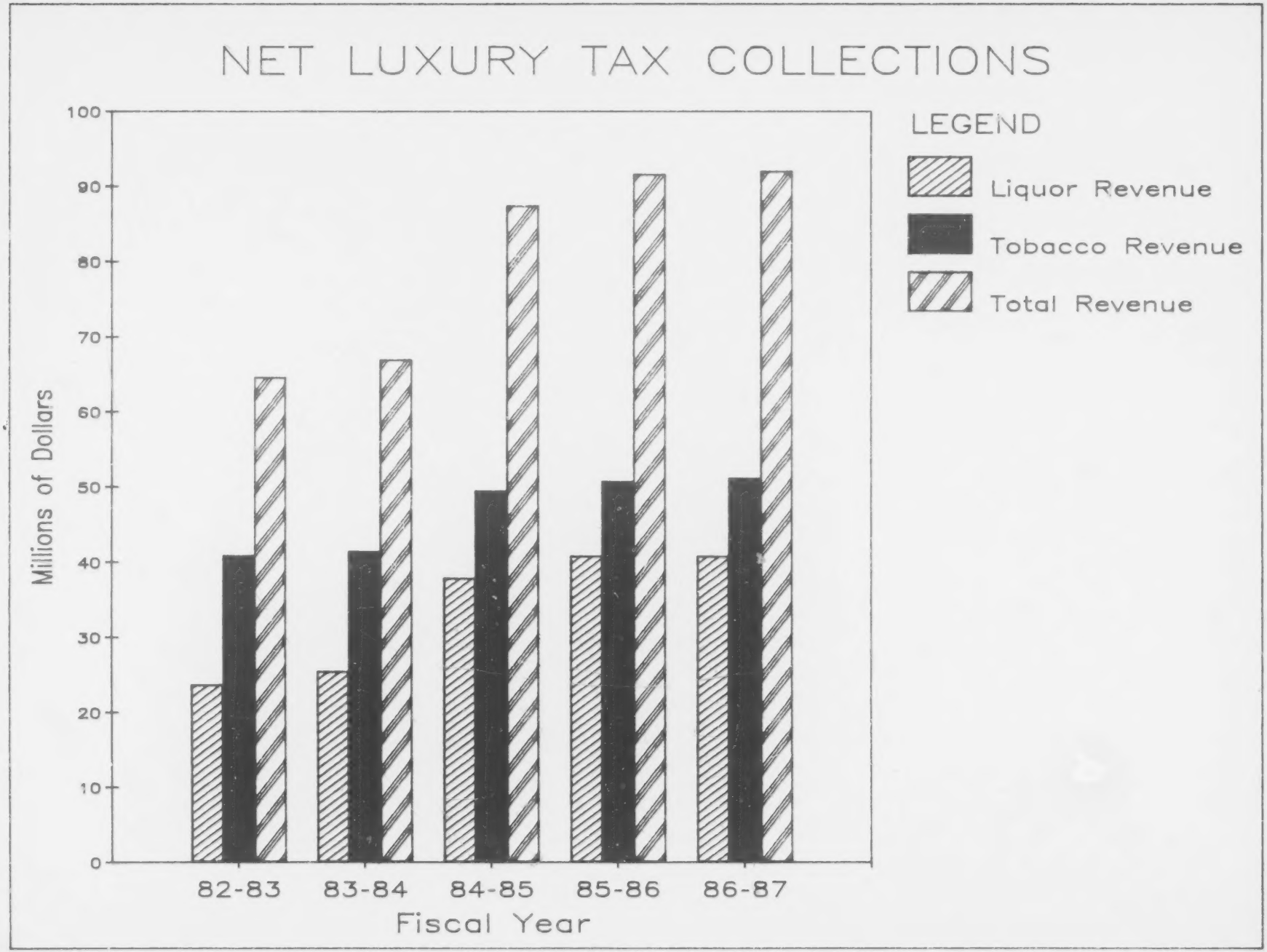
The current luxury tax rates on cigarettes, tobacco products, and liquor are:

Tobacco Products	Rate
Cigarettes	
package of 20 or fractional part	$ .15
Cigars	
Small cigars weighing not more than 3 lbs/1,000	
package of 20 or less	.04
Selling for 5¢ or less	
each cigar	.00666
Selling for more than 5¢	
each cigar	.02
Smoking tobacco, snuff, fine cut, chewing, etc.	
per ounce	.02
Cavendish, plug & twist	
per ounce	.005
Alcoholic Beverages	
Spirituous Liquors	
per gallon	3.00
Vinous Liquors - more than 24% alcohol	
per gallon	4.00
Vinous Liquors - less than 24% alcohol	
per gallon	.84
Malt Liquor (Beer)	
per gallon	.16
per barrel (31 gallons)	4.96

TABLE 33
LUXURY TAX COLLECTIONS

SOURCE	1982-83	1983-84	1984-85	1985-86	1986-87	PERCENT OF COLLECTIONS IN 1986-87
Spirituous Liquor						
Net Revenue	$13,890,962	$14,600,111	$17,049,450	$18,034,731	$17,059,104	18.535
Vinous Liquor						
Net Revenue	3,008,457	3,663,608	6,785,029	7,563,260	7,832,584	8.510
Malt Liquor						
Net Revenue	6,813,120	7,235,455	14,102,897	15,250,805	15,927,165	17.305
Tobacco - All Types						
Gross Revenue	42,467,848	44,266,716	51,386,983	51,419,032	51,781,811	56.261
Refunds/Discounts	(1,563,178)	(2,793,086)	(1,862,655)	(644,674)	(563,562)	(0.612)
Licenses	1,300	1,475	1,575	1,575	1,600	0.001
Net Revenue	40,905,970	41,475,105	49,525,903	50,775,933	51,219,849	55.650
TOTAL NET REVENUE	$64,618,509	$66,974,279	$87,463,279	$91,624,729	$92,038,702[1]	100.000

[1] Of the monies collected from the Luxury Tax during fiscal year 1986-87, $22,469,984 was deposited in the Corrections Fund. The remaining $69,568,718 was deposited in the State General Fund.


NET LUXURY TAX COLLECTIONS
LEGEND
Liquor Revenue
Tobacco Revenue
Total Revenue
Millions of Dollars
100
90
80
70
60
50
40
30
20
10
0
82-83
83-84
84-85
85-86
86-87
Fiscal Year

ESTATE TAX

The Arizona estate tax is a tax on the transfer of property or interest in property which takes effect upon the owner's death. The estate tax is imposed on the net taxable estate before distribution, differing from the inheritance tax which is imposed on the portion of the estate received by a beneficiary. Arizona does not impose inheritance or gift taxes. Estate taxes are deposited in the General Fund.

The Estate Tax Office of the Arizona Department of Revenue is responsible for the collection of estate taxes and the processing of Estate Tax Returns (Form 76) for taxable estates and Reports of Personal Representative of Decedent (Form 74) for nontaxable estates. (Refer to Table 34.)

An estate is not taxable and no estate tax return is required to be filed if a federal estate tax return is not required. However, a Report of Personal Representative of Decedent must be filed in order to obtain waivers to be used in connection with probate proceedings, to terminate joint tenancy on real property and/or to transfer stock in companies incorporated in Arizona held by resident decedents.

The Arizona estate tax for an Arizona resident decedent is an amount equal to the federal credit for State death taxes. If the decedent owned realty or tangible personal property having situs in another state, the Arizona tax is reduced by either the amount of death tax paid to the other state or a prorated share of the federal credit, whichever is less.

The Arizona estate tax for a nonresident decedent is a prorated share of the federal credit, based on the value of real property and tangible personal property having actual situs in Arizona.

UNCLAIMED PROPERTY

Responsibilities of the Unclaimed Property Processing Unit include the collection, safekeeping, and disposition of unclaimed property, escheated estates, and unclaimed shares and dividends of Arizona.

The Unclaimed Property Unit establishes and maintains records of funds and other personal property, presumed to be abandoned, which are received from banking or financial organizations, insurance corporations, utilities, business associations, fiduciaries, state courts, and public officers and agencies. The largest percentage of unclaimed property is comprised of:

- Bank accounts or credit union accounts with no activity for seven years
- Utility deposits not claimed in two years
- Contents of safe deposit boxes on which rent has not been paid for one year
- Travelers checks not cashed in fifteen years.

Cash is deposited in the General Fund when received; personal property other than cash is sold at public auction and the proceeds deposited in the General Fund. Unclaimed property may be recovered by an owner at any time, with proper documentation.

The Unclaimed Property Unit establishes and maintains records of escheated estates and unclaimed shares and dividends. When a person dies without leaving a will and has no known heirs, or if a person dies and a known heir cannot be located, his or her property reverts to the state as the original and ultimate proprietor. (Refer to Table 34.)

The unclaimed property audit program collected $727,052 in fiscal year 1986-87, an increase from fiscal year 1985-86 of 41.8%. Funds received from escheated estates and from unclaimed shares and dividends are deposited in the Permanent School Fund. (Refer to Table 35.)

In early 1986, Arizona joined the Unclaimed Property Clearinghouse, a consortium of states supporting specialized audits of financial institutions which hold large numbers of unclaimed securities or other assets.

TABLE 34
COLLECTIONS OF ESTATE TAXES AND UNCLAIMED PROPERTY

SOURCE	1982-83	1983-84	1984-85	1985-86	1986-87	PERCENT OF COLLECTIONS IN 1986-1987
Estate Taxes	$12,492,305	$12,978,900	$15,302,387	$13,528,098	$26,389,374	
Refunds	260,954	442,689	555,594	359,381	720,537	
Net	12,231,351	12,536,211	14,746,793	13,168,717	25,668,837	84.94
Unclaimed Property	995,848	1,271,125	1,864,695	2,531,318	4,824,885	
Refunds	103,425	239,286	226,500	320,995	321,526	
Net	892,423	1,031,839	1,638,195	2,210,323	4,503,359	14.90
Escheated Estates	366,293	231,461	164,930	106,091	202,692	
Refunds	2,571	26,426	155,558	59,828	152,751	
Net	363,722	205,035	9,372	46,263	49,941	0.17
Unclaimed Dividends	1,676	71,641	4,746	17,168	64	
Refunds	0	4,298	77,522	8	1,551	
Net	1,676	67,343	(72,776)	17,160	(1,487)	(0.01)
TOTAL NET REVENUE	$13,489,172	$13,840,428	$16,321,584	$15,442,463	$30,220,650	100.00

TABLE 35
DISTRIBUTION OF ESTATE TAX COLLECTIONS
1986-87

Net to General Fund	$30,172,196
Net to Permanent School Fund	48,454
TOTAL NET COLLECTIONS	$30,220,650

BINGO

The bingo tax is divided into two types: large game tax and small game tax. Large games are defined as any game with gross receipts of more than $300 per week. The tax on large games is 2% of gross receipts, one half of which is deposited to the General Fund and the other half is used to pay the administrative costs of the tax. Small games are defined as having gross receipts of $300 per week maximum. The tax on small games is 2.5% of net proceeds, all of which is used to pay the administrative costs of the tax. (Refer to Table 36 for total bingo collections.)

Large game licenses are $100 each and small game licenses are $5 each. Currently, there are 266 large game licenses and 411 small game licenses. All license fees and penalty and interest payments are deposited in the State General Fund.

TABLE 36
BINGO COLLECTIONS
1978-79 through 1986-87

FISCAL YEAR	AMOUNT
1978-79	127,072
1979-80	142,458
1980-81	159,422
1981-82	276,216
1982-83	388,758
1983-84	415,224
1984-85	412,285
1985-86	600,158
1986-87	730,593

PROPERTY TAX

TAX BASE

In Arizona, the property tax is an ad valorem tax, or tax on the value of property. For tax purposes, all properties in Arizona carry two values: limited value and full cash value. Taxes based on the limited value, called primary property taxes, are used to pay for the basic maintenance and operations of a jurisdiction. (Refer to Table 41.) This value is limited to the larger of 10% growth per year or 25% of the difference between the prior year's limited value and the new full cash value. The full cash value is unlimited and floats with the market. Taxes based on this value are referred to as secondary property taxes and are used to pay for bonded indebtedness, voter-approved overrides and special district levies. (Refer to Table 42.) Table 41 shows the tax levy by county throughout the state. Over 60% of the total primary tax levy was levied directly for educational purposes. In addition, as indicated by Table 42, approximately 50% of secondary tax levies were also levied for educational purposes.

All taxable property in Arizona is classified according to its current use. Each class has a different assessment ratio which is the percentage of the value used as a tax base. The assessment ratios are prescribed by law and those in effect in 1987 are shown below.

Classification	Ratio
1. Producing mines, standing timber	30%
2. Telecommunications property, gas, electric and water utilities, pipelines	30%
3. Commercial and industrial property	25%
4. Agricultural and vacant land	16%
5. Owner-occupied residential property	10%
6. Rental residential property	15%
7. Railroad and private rail car property, airline flight property	26%
8. Historic property	5%
Also	
Producing oil and gas interests	100%

A change in Class 1 and Class 2 assessment ratios in 1986 from 34% to 32% and in 1987 to 30% continues to exert upward pressure on taxes of locally assessed properties. A smaller tax base in centrally valued properties means tax burdens are shifted to other property classes.

For each year after 1983, Class 1 and Class 2 assessment ratios are reduced by 2% of the full cash value until tax year 1990. For tax year 1990 and each year thereafter, ratios will remain at 25% of the full cash value.

Class 6 assessment ratio is lowered to 15% for 1987, and 14% of full cash value for 1988, with additional reductions of 1% per year thereafter until 1992 when the ratio will remain at 10%.

The previously-designated Class 9 (Scenic or historic railroads) was deleted by the Arizona State Legislature in 1986.

GENERAL PROPERTY TAX ADMINISTRATION

Duties of property appraisal are divided between the State and counties. The Arizona Department of Revenue appraises utilities, railroads, producing mines, and other complex or geographically dispersed properties. Values determined by the Department for those properties are transmitted to the County Board of Supervisors for entry upon the county tax rolls for levy and collection of property taxes. County Assessors, utilizing standards established by the Department, are responsible for appraisal of the other classes of property, including residential, commercial and industrial, and agricultural properties. (Refer to Tables 38 and 39.)

TAX COLLECTION AND DISTRIBUTION

Other than the two exceptions noted below, County Treasurers collect all property taxes and distribute receipts to all taxing entities. The State property tax collected by the counties is deposited in the State General Fund.

Taxes levied on airline flight property and private rail car property are collected by the Department of Revenue and deposited in the State General Fund. (Refer to Table 37.) Tax on airline flight property and private car companies is levied at the average State tax rate. (See Table 37. NOTE: The figures reflect actual collections within the fiscal year for flight property, not the amount billed.)

The average State tax rate is the rate which is derived from dividing the total of all of the levies in the State by the total net assessed value in the State. This calculation produces the weighted average of all of the levies in the state. It is applied to airline flight property and private rail cars because those properties are not physically located in any particular taxing jurisdiction.

TABLE 37
PROPERTY TAX COLLECTIONS

FISCAL YEAR	FLIGHT PROPERTY TAX	PRIVATE RAIL CAR PROPERTY TAX	NUCLEAR PLAN ASSESSMENT
1977-78	2,064,993	1,348,215	-------
1978-79	2,053,858	999,759[1]	-------
1979-80	2,507,401	536,773	-------
1980-81	5,585,255[2]	692,366	-------
1981-82	3,217,110[2]	538,855	300,000
1982-83	2,290,785	566,505	968,456
1983-84	2,782,822	626,198	573,751
1984-85	2,679,799	750,036	410,515[3]
1985-86	3,501,825	951,942	412,015[4]
1986-87	4,795,803	654,627	483,700

[1] Assessment ratio lowered from 60% to 36%.
[2] Tax base revised.
[3] Received in July 1985 FY 84-85.
[4] Received in July 1986 for FY 85-86.

TABLE 38
NET ASSESSED VALUATION BY COUNTY

COUNTY	1985 LIMITED VALUE (PRIMARY)	1985 FULL CASH VALUE (SECONDARY)	1986 LIMITED VALUE (PRIMARY)	1986 FULL CASH VALUE (SECONDARY)	1987 LIMITED VALUE (PRIMARY)	1987 FULL CASH VALUE (SECONDARY)
Apache	$ 327,765,943	$ 343,021,227	$ 426,252,634	$ 436,911,552	$ 372,512,307	$ 380,840,269
Cochise	287,851,703	316,899,408	305,729,868	328,880,734	315,665,635	336,838,658
Coconino	435,914,388	488,397,148	453,816,848	493,621,234	485,524,504	527,799,981
Gila	171,401,929	183,838,687	172,831,685	182,051,258	176,108,639	184,248,810
Graham	56,787,986	60,659,699	57,994,883	60,489,388	56,304,493	57,444,829
Greenlee	60,946,382	61,450,872	67,218,882	67,611,376	69,281,311	69,479,302
La Paz	64,079,431	69,633,102	74,483,163	80,035,932	84,303,745	87,781,914
Maricopa	8,073,816,168	9,038,215,631	9,752,363,542	10,963,593,442	11,488,429,321	12,402,456,053
Mohave	341,962,406	377,703,340	370,195,057	403,812,003	394,420,412	421,109,066
Navajo	460,497,182	497,168,042	477,041,575	516,747,544	489,957,643	522,716,618
Pima	2,305,320,800	2,565,591,138	2,530,982,778	2,841,072,424	2,743,293,470	2,993,817,624
Pinal	321,977,770	345,496,357	355,363,419	381,367,533	422,939,743	442,675,785
Santa Cruz	88,379,658	103,816,031	91,804,051	103,765,999	97,472,278	104,895,517
Yavapai	389,168,016	447,991,805	428,728,610	474,426,903	452,212,424	482,422,587
Yuma	274,591,868	289,814,127	295,616,113	307,550,759	315,463,890	324,456,546
TOTAL	$13,660,461,630	$15,189,696,614	$15,860,423,108	$17,641,938,081	$17,963,889,815	$19,338,983,559

TABLE 39
PROPERTY ASSESSMENT RESPONSIBILITY
1987

COUNTY	LIMITED NET ASSESSED VALUES				FULL CASH NET ASSESSED VALUES			
	DEPARTMENT-VALUED		ASSESSOR-VALUED		DEPARTMENT-VALUED		ASSESSOR-VALUED	
	AMOUNT	% OF COUNTY	AMOUNT	% OF COUNTY	AMOUNT	% OF COUNTY	AMOUNT	% OF COUNTY
Apache	$ 309,999,481	83.22	$ 62,512,826	16.78	$ 310,176,371	81.45	$ 70,663,898	18.55
Cochise	101,377,864	32.12	214,287,771	67.88	101,563,408	30.15	235,275,250	69.85
Coconino	181,628,139	37.39	303,996,365	62.61	182,086,334	34.50	345,713,647	65.50
Gila	46,157,222	26.21	129,951,417	73.79	46,205,925	25.08	138,042,885	74.92
Graham	7,550,744	13.41	48,753,749	86.59	7,642,714	13.30	49,802,115	86.70
Greenlee	52,905,294	76.36	16,376,017	23.64	52,938,537	76.19	16,540,765	23.81
La Paz	36,333,879	43.10	47,969,866	56.90	36,505,354	41.59	51,276,560	58.41
Maricopa	2,490,479,478	21.68	8,997,949,843	78.32	2,493,616,498	20.11	9,908,839,555	79.89
Mohave	69,592,359	17.64	324,828,053	82.36	69,927,005	16.61	351,182,061	83.39
Navajo	294,461,155	60.10	195,496,488	39.90	294,849,061	56.41	227,867,557	43.59
Pima	324,393,296	11.82	2,418,900,174	88.18	326,315,182	10.90	2,667,502,442	89.10
Pinal	137,572,035	32.53	285,367,708	67.47	137,907,349	31.15	304,768,436	68.85
Santa Cruz	13,093,609	13.43	84,378,669	86.57	13,327,020	12.71	91,568,497	87.29
Yavapai	78,714,983	17.41	373,497,441	82.59	79,279,198	16.43	403,143,389	83.57
Yuma	62,265,193	19.74	253,198,697	80.26	62,475,143	19.26	261,981,403	80.74
TOTAL	$4,206,424,731	23.42%	$13,757,465,084	76.58%	$4,214,815,099	21.79%	$15,124,168,460	78.21%

TABLE 40
AVERAGE PROPERTY TAX RATES

	1984		1985		1986		1987	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts[1]	$3.79	$ .88	$3.94	$1.12	3.98	1.28	4.29	1.36
Counties	2.08	.27[2]	2.04	.29[1]	2.03	.35	2.02	.38
State	.40	---	.40		.38	---	.38	---
Cities	.35	.36	.32	.38	.31	.41	.31	.40
Community Colleges	.80	.00	.74	.06	.69	.05	.67	.05
Special Districts	---	.54[2]	---	.57	---	.57	---	.62
TOTAL	$7.40	$2.06	$7.44	$2.42	$7.39	$2.66	$7.67	$2.81

[1] School district rate includes unorganized school districts.
[2] 1984 county flood control levies of $11,802,968 previously reported as county were reclassified as special districts.

Figures may not add to totals due to rounding.

TABLE 41
SUMMARY OF PRIMARY TAX LEVIES
FOR 1986-87

COUNTY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES AND TOWNS	COMMUNITY COLLEGES	SCHOOLS	TOTAL LEVIES
Apache	$ 372,512,307	$ 1,415,547	$ 2,536,064	$ - Ø -	$ - Ø -	$ 8,071,732	$ 12,023,343
Cochise	315,665,635	1,199,529	10,664,347	705,494	4,867,066	13,713,736	31,150,172
Coconino	485,524,504	1,844,993	4,585,482	1,313,616	- Ø -	19,873,645	27,617,736
Gila	176,108,639	669,212	7,925,768	842,319	- Ø -	8,662,384	18,099,683
Graham	56,304,493	213,957	1,353,616	99,210	806,787	1,419,573	3,893,143
Greenlee	69,281,311	263,269	535,957	4,921	- Ø -	2,487,353	3,291,500
La Paz	84,303,745	320,354	2,134,992	- Ø -	1,209,185	3,157,495	6,822,026
Maricopa	11,488,429,321	43,656,031	165,318,498	43,927,868	70,272,141	482,852,864	806,027,402
Mohave	394,420,412	1,498,798	9,748,889	1,194,150	3,439,318	18,476,037	34,357,192
Navajo	489,957,643	1,861,839	4,232,188	186,304	2,946,800	13,790,832	23,017,963
Pima	2,743,293,470	10,424,515	108,985,560	4,074,984	18,750,000	136,484,392	278,719,451
Pinal	422,939,743	1,607,171	21,374,199	1,005,355	7,077,819	19,352,239	50,416,783
Santa Cruz	97,472,278	370,395	3,404,706	- Ø -	- Ø -	4,735,690	8,510,791
Yavapai	452,212,424	1,718,407	12,626,675	668,655	6,153,180	21,425,389	42,592,306
Yuma	315,463,890	1,198,763	7,791,775	2,349,683	4,524,759	15,765,588	31,630,568
TOTAL	$17,963,889,815	$68,262,780	$363,218,716	$56,372,559	$120,047,055	$770,268,949	$1,378,170,059
Percent of Total Levies		4.95%	26.36%	4.09%	8.71%	55.89%	100.00%

Average Primary Tax Rate: $7.67

TABLE 42
SUMMARY OF SECONDARY TAX LEVIES
FOR 1986-87

COUNTY	NET ASSESSED VALUATION	COUNTY	CITIES AND TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL LEVIES
Apache	$ 380,840,269	$ 770,060	$ - Ø -	$ - Ø -	4,571,730	$ 498,893	$ 5,840,683
Cochise	336,838,658	1,994,805	6,000	- Ø -	2,445,334	2,627,891	7,074,030
Coconino	527,799,981	964,424	803,572	- Ø -	$ 11,193,645	2,452,071	15,413,712
Gila	184,248,810	828,009	8,673	- Ø -	1,844,039	660,563	3,341,284
Graham	57,444,829	20,852	- Ø -	88,408	1,457,870	141,826	1,708,956
Greenlee	69,479,302	907,819	- Ø -	- Ø -	1,350,242	30,777	2,288,838
La Paz	87,781,914	87,782	- Ø -	- Ø -	556,300	716,703	1,360,785
Maricopa	12,402,456,053	27,251,761	63,751,004	9,057,513	160,655,301	68,925,270	329,640,849
Mohave	421,109,066	2,092,855	509,340	- Ø -	2,748,994	5,174,043	10,525,232
Navajo	522,716,618	374,600	50,315	- Ø -	10,759,640	2,367,775	13,552,330
Pima	2,993,817,624	33,570,885	10,751,650	- Ø -	45,309,168	26,044,252	115,675,955
Pinal	442,675,785	667,676	183,892	327,144	6,979,594	3,365,588	11,523,894
Santa Cruz	104,895,517	346,575	- Ø -	- Ø -	1,302,985	935,408	2,584,968
Yavapai	482,422,587	882,423	686,680	- Ø -	5,506,086	4,881,211	11,956,400
Yuma	324,456,546	2,491,710	359,751	- Ø -	5,683,698	1,701,544	10,236,703
TOTAL	$19,338,983,559	$73,252,236	$77,110,877	$9,473,065	$262,364,626	$120,523,815	$542,724,619
Percent of Total Levies		13.50%	14.21%	1.74%	48.34%	22.21%	100.00%

Average Secondary Tax Rate: $2.81

ANNUAL REPORT SUMMARY OF LEGISLATION

"REVIEW OF THE 1987 REGULAR
AND SECOND AND THIRD SPECIAL SESSIONS"

Bill No./Law Chapter No.	Description of Law

INCOME, WITHHOLDING, AND ESTATE TAXES - REGULAR SESSION

SB 1150
Chapter 49

Public Fiduciary; estate on account.
On accounts administered by the public fiduciary, the gross values of the assets in the estate were increased from a $3,000 limit to $10,000. Effective August 18, 1987.

HB 2051
Chapter 9[illegible]

Income tax withholding percentages.
This bill dealt with changes to Arizona's withholding law. This bill was repealed by SB 1001, Chapter 2, Second Special Session. Please see summary under that bill.

SB 1041
Chapter 178

Installment payments of estate tax.
This bill provides for the payment of Arizona estate tax liability on certain estates by installment payments. For several years, the Department of Revenue had allowed installment payments similar to the Federal government; however, in 1985, it was determined there was no statutory authority to allow installment payments. This bill provides for certain federally-qualified closely held businesses with state estate tax liabilities in excess of $50,000 to apply for installment payments with Arizona. The payments must be made to the state in the same number of installments and at the same time as the federal estate tax payments. Interest will accrue to the state on the unpaid balance. Effective August 18, 1987.

SB 1145
Chapter 361

State budget units; prepayment authority. (Now: enterprise zones).
This bill provides for an income tax credit to businesses who operate in economically depressed areas which have been designated as enterprise zones by the Department of Commerce. This credit is in addition to the existing individual and corporate income tax credits. The credit of $5,000 per net new employee is allowed against taxes imposed against a business under the income tax for net increases in employment of businesses located inside an enterprise zone. The business must certify to the Department of Revenue that at least 35% of the full-time employees are residents of the enterprise zone and were receiving public assistance prior to their employment. If the allowable credit exceeds the income taxes otherwise due from the business, or if there are no income taxes due on the business's income, the amount of the unused tax credit may be carried forward against subsequent years' income tax liability for up to five years, provided the business remains in an enterprise zone. This bill has a delayed effective date of June 30, 1988.

SB 1360 **Omnibus air quality.**
Chapter 365 This is a major bill to improve Arizona's air quality. Among the major provisions of the bill is a specific tax deduction for employers who pay for public transit for their employees to and from work. The employer is required to retain receipts received from purchasing the tickets as evidence for qualifying for this deduction. Public transportation is defined as local transportation of passengers by a public conveyance operated or licensed by an incorporated city or town or a regional public transportation authority. The Department of Revenue is to maintain an account of the total dollar amount of deductions allowed under this provision, and at the end of each fiscal year, notify the State Treasurer of the amount. Effective was August 18, 1987.

SECOND SPECIAL SESSION

SB 1001 **Windfall avoidance and tax conformity.**
Chapter 2 This bill provides for conformity in Arizona to the Internal Revenue Code, as changed by the Tax Reform Act of 1986. The Arizona reference date is January 1, 1987 for income and estate tax purposes. An additional subtraction of 46% of the federal income tax liability, or $475, whichever is greater, is allowed in addition to existing subtractions for withholding and estimated payments. This subtraction will be on individual income tax forms only, since the windfall in additional tax revenues was not returned to corporations, estates, or trusts. The windfall is generated because Arizona's income tax utilizes the federal adjusted gross income, less the federal tax liability, as the starting point in determining Arizona tax liability. The 1986 federal income tax reform removed many tax provisions that formerly reduced the federal adjusted gross income, and also reduced the tax liabilities of many individuals, both changes which result in higher state tax revenues if the provisions of the special subtraction were not adopted. This provision will return the windfall of state tax revenues to those people who would have paid additional Arizona tax. This bill also establishes a Taxation Review Committee to report on the impact of federal tax changes on Arizona revenues.

This legislation also corrected a withholding rate conflict by repealing HB 2051, Chapter 96, from the First Regular Session and placing the same language in this bill with an emergency enactment. The Regular Session legislation had a retroactive effective date from August 18, 1987, when it became law, to July 1, 1987 for the rates of withholding. The Attorney General issued an opinion that the retroactive provisions of the law could not be enforced, which created significant problems for employers. This change eliminated the retroactivity conflict. The withholding rates for employees with annual compensation of less than $15,000 are 10%, 17%, 22%, and 25%, at the employee's election. For employees whose annual compensation is $15,000 or more, the

withholding percentages are 17%, 22%, and 25%. This provision became effective with the Governor's signature on July 1, 1987. The rate changes are permanent.

The effective date for the conformity portion of the bill is July 1, 1987 for the tax year 1987. The legislature will consider this issue again in the Regular Session of 1988.

TRANSACTION PRIVILEGES; USE TAXES - REGULAR SESSION

SB 1255 **Multi-municipal sales taxes; exemptions.**
Chapter 25 This bill is directed towards resolving sales tax disputes between cities by revising the statutes to include the instances where one municipality taxes a transaction and another municipality exempts the same transaction from tax. The new language provides for the superior jurisdiction municipality to either tax or exempt the transaction, but if the transaction is exempt from tax, the second municipality may not impose a tax. Additionally, if it is determined that a city may impose a tax, the business becomes liable for taxes on any similar transactions which occur after written notification of the resolution of the disputes between the municipalities. This change applied retroactively to all cases and issues which were pending on or before December 31, 1985, and for which a final adjudication pursuant to Arizona Revised Statutes 42-1452 has not been rendered as of August 18, 1987.

SB 1108 **Tax exemptions; sales of goods.**
Chapter 34 Provides for the exemption from sales and use taxes for food instruments issued under the Child Nutrition Act, Section 17, for both state and municipal sales and use taxes. This program is called the Special Supplemental Food Program for Women, Infants, and Children (WIC). The exemption becomes effective October 1, 1987.

SB 1063 **Subsidiary corporation rental sales tax.**
Chapter 44 Under this bill, corporations with at least an 80% ownership of its subsidiaries, which lease or rent tangible personal property to the subsidiaries, or between the subsidiaries, are exempt from the transaction privilege tax on rental activities. A prerequisite to the exemption from the rental sales tax is the payment of retail sales tax on the initial purchase of the property subject to the rental or lease. Effective August 18, 1987.

SB 1002 **Sales tax exemption; packing ice.**
Chapter 69 Ice used in the packing, shipping, or transportation of food is exempt from sales and use taxes. Effective August 18, 1987.

SB 1196 **Sales tax on printing; exemption.**
Chapter 183 An emergency bill, which took effect April 27, 1987, provides exemption for the job printing sales tax on certain sales of printing, engraving, embossing, and copying. To qualify for the tax exemption, a business must engage in the distribution of magazines or newspapers for free. The resale exemption already

exists for newspapers and magazines which are to be sold. An additional provision of this bill requires advertising supplements printed out-of-state for inclusion in an Arizona newspaper, to have paid an excise tax in the state where published at a rate equal to or greater than Arizona's use tax to be exempt from use tax.

SB 1455 **Sales tax surety bond.**
Chapter 203 Licensed contractors, and businesses regulated by the Office of Manufactured Housing, will be required to post a surety bond to ensure payment of sales tax liability if the business has not conducted business in Arizona within a year, or if the principal place of business is located outside of this state. A minimum surety bond of $2,000, payable to the State of Arizona, is required for two years. Renewals, transfers, or a business applying for a new license, can be exempted from the surety requirements if all sales taxes paid have been paid timely for at least the two preceeding years. The Director of Revenue may also exempt a licensee if good cause is found for the late or delinquent payment of taxes, or if it is determined a surety bond would not be necessary to ensure payment of taxes. Effective August 18, 1987.

HB 2369 **Sales tax credit; reduction.**
Chapter 265 Currently, businesses are allowed a credit for the costs of accounting and reporting the transaction privilege tax to the state. This bill reduces the credit to the lesser of eight-tenths of 1% of the amount of sales tax due, or $5,000. This credit reduction becomes effective with the July 1987 sales tax report filing.

HB 2345 **Department of Weights and Measures.**
Chapter 314 As part of the legislation creating the Department of Weights and Measures, the Department of Revenue is required to provide a monthly list of transaction privilege tax licenses issued the previous month. Revenue will notify all sales tax licensees annually of their responsibility to register new or existing weighing or measuring devices with the Department. Effective August 18, 1987.

HB 2380 **Sales tax exemption; precious metal.**
Chapter 352 This bill contained three different provisions. First, the exemption from the transaction privilege tax for sales of precious metal bullion and monetized bullion. The exemption does not cover coins or other forms of money used to manufacture and sell as jewelry or works of art. Purchases of these coins, as well as commemorative coins, are to be taxed. This exemption became law as of July 1, 1987. A second provision exempted ambulance services from sales tax retroactively to July 1, 1982 on their gross income from transportation charges. The final provision enacted a mandatory sales tax for Yuma County beginning October 1, 1987, and ending after March 31, 1989. The sales tax rate for the county will be equal to 10% of the state sales tax rate on selected transactions. The monies collected from this

county tax will be used to repay a court judgment resulting from the division of Yuma County to create La Paz County. The remaining money will be used to repay the state for a 1986 loan.

TRANSACTION PRIVILEGE TAX - SECOND SPECIAL SESSION

SB 1003 **Incentives; superconducting super collider siting.**
Chapter 4 This is a conditional law which would become effective if the site selected for the superconducting super collider is in the state of Arizona. Transaction privilege and use taxes would be exempted in the utilities and contracting activities for federal research projects having an initial gross construction cost of more than $2 billion within the state of Arizona.

TRANSACTION PRIVILEGE TAXES - THIRD SPECIAL SESSION

SB 1001 **Sales tax distribution to counties.**
Chapter 1 The distribution formula for the allocation of state sales tax revenue was changed by this law. Effective with the distribution of August revenues, any county's share of the total county revenues is capped at 63.35%, with the excess revenues distributed by a two-step formula among the other fourteen counties. Another provision allows any county that is not part of a community college district, and has less than a 1% share of the sales tax distribution base, to have the state pay for non-resident community college services. That county's portion of sales tax revenues are reduced proportionately.

PROPERTY TAXES - REGULAR SESSION

SB 1023 **Property tax exemption; vehicle valuation.**
Chapter 33 Under the Constitution, Arizona veterans, widows, widowers, and disabled persons are allowed valuation exemptions from property taxation based upon their income and total assessed value of their property. This bill clarifies the type of property to be considered when calculating the allowable valuation exemption. The value of any vehicle subject to the motor vehicle in-lieu tax will not be included. Effective August 18, 1987.

HB 2174 **Property tax reports; valuation notice.**
Chapter 64 Property tax Classes 1 and 2, as defined in A.R.S. Sections 42-143 and 42-144, and airline flight property, are required to file a report for the purposes of valuing their property by April 1 each year. The Director may grant an extension for good cause if a written request is received. If a property does not file a report as required under this section, then the Department shall estimate the value of the property based on 105% of the prior year's full cash value or based on any information available to the Department. A penalty is also allowed in the amount of the lesser of one-half of one percent of the value estimated by the Department or $100 per day for each day the company fails to file the report. If a report is not filed by May 20th of the tax year, the company forfeits all rights of appeal of the valuation and classification allowed by A.R.S. Sections 42-145, 42-176, and

42-177. An additional provision repealed the certified mailing provisions for private car companies, allowing the Department to mail the valuation notices by regular first class mail. Effective August 18, 1987.

HB 2258 **County ascertainment of property; taxation.**
Chapter 66 Clarifies the date for county assessors to ascertain the value of all property in the county no later than November 30th of each year. An additional provision changes the address that the assessor mails the results of its ruling on a petition, to the petitioner's address, rather than the roll address. Effective August 18, 1987.

HB 2075 **Property tax exemption; inventory.**
Chapter 98 HB2075 changes the personal property tax report to provide a space for taxpayers to indicate if they are claiming a tax exemption on their inventory. The assessor may also require additional proof of the facts for which the taxpayer claims the exemption. The exemption from the tax is waived if a taxpayer fails to claim the exemption or fails to provide the additional proof requested by the assessor. Effective August 18, 1987.

HB 2074 **Assessment advisory committee.**
Chapter 105 An advisory committee was created consisting of the Director of Revenue or his designee, two Director-appointed county assessors, and two members appointed by the President of the Senate and the Speaker of the House, one representing properties assessed by the counties. This committee meets at least annually to review definitions and guidelines pertaining to the status of property as real or personal, and secured or unsecured. It may also recommend changes which it believes will increase statewide uniformity in proper property status, and consider the residual value percentages established by Revenue on various types of personal property. Effective August 18, 1987.

HB 2038 **Refund church property tax.**
Chapter 191 Under this bill, county treasurers will refund property taxes paid by churches for tax years 1985 and 1986. The church must have filed within sixty days of August 8, 1987 to receive a refund. An additional provision allows an organization exempt from income taxes to have an exemption waiver redeemed by the county board of supervisors if a petition is submitted in the proper manner. Any property taxes due prior to the submission of the petition will not be refunded.

SB 1176 **Property tax oversight commission.**
Chapter 204 This law established a property tax oversight commission to evaluate and report on the accuracy of property tax valuations in prior years. Members include the Director of Revenue and two laypersons knowledgeable in property tax assessement and levies. The commission will review primary property tax levies of counties, municipalities, and community colleges to determine

compliance with the statutory and constitutional provisions of the levies. This commission becomes effective with the 1988 tax year.

HB 2067 **Property tax classification; day care.**
Chapter 248 HB 2067 provides for the reclassification of licensed day care centers by placing them into property tax Class 4. Previously, day care centers were classified as commercial property in Class 3. The property tax assessment ratio will decline on the day care centers at 1% per year until they reach 10% in 1991. Additionally, licensed residential care institutions, licensed nursing care institutions, or residential housing facilities not used or held for profit and structured to the care or housing of handicapped persons or persons 62 years of age or older will be placed in Class 6 in 1991. Finally, scenic or historic railroad property classified as Class 9 has been repealed. Effective for tax years beginning January 1, 1988.

HB 2462 **Remove municipal property; fiscal impacts.**
Chapter 268 This bill provides for municipal property not located within municipal corporate boundaries, and from which water is or may be acquired for use on other property, to be deemed taxable property for purposes of determining the county primary property tax levy limitation and state sales tax distribution for the jurisdiction within which the property is located. A requirement of an intergovernmental agreement, pursuant to Title II, Chapter 7, Article 3, A.R.S., requiring the municipality to pay in-lieu property taxes, is contained in the bill. Effective August 18, 1987.

SB 1156 **Taxation exemptions; buildings; research park.**
Chapter 306 Arizona State University Research Park had an exemption for certain property under the possessory interest property tax. This law expands to cover buildings used for office and administrative purposes related to the research and development activities at the park. The emergency effective date of the law was May 14, 1987

HB 2255 **Parklands; property tax exemption.**
Chapter 308 The existing exemptions from property taxation were expanded under this bill to include property held by a charitable organization if the land is held for transfer to the state or a political subdivision for use as parkland. To qualify, the charity must receive no rent or other valuable consideration. If the property is not transferred to the intended organization, or if it is used or occupied by or for another person's benefit, the charity becomes liable for all taxes, interest, and penalties normally due. Also included is an extension for filing for assessment and tax levy information for the 1987 tax year for Round Valley Unified and Verno Elementary School Districts. An emergency effective date of May 16, 1987 is on this bill.

HB 2317 **Board of education; appropriation.**
Chapter 316 This legislation makes an appropriation to the Board of Education for distribution to the Miami Area Unified School District for

assistance in repayment of property taxes under a settlement and judgment of a court case. Appropriation in the sum of $180,000 is effective for the 1987-88 fiscal year.

SB 1181
Chapter 318

Appropriation; litigation expenses; supplementary state aid.
This bill is an appropriation to the Department of Revenue for litigation expenses in certain railroad property tax lawsuits in the amount of $500,000 for fiscal years 1986-87 and 1987-88. Additionally, $1,438,908 was appropriated to the State Board of Education to be disbursed in fiscal year 1986-87 to provide supplementary state aid to school districts adversely impacted by the above-referenced litigation. This bill became law May 19, 1987.

HB 2171
Chapter 340

Lease-purchase agreements; tax exemptions.
An additional exemption from property tax is provided by this law if the property is leased by the state or a political subdivision under a lease-purchase agreement authorized by law, and if the property is used exclusively for governmental activity by the governmental agency. Effective with the 1987 property tax year.

LUXURY TAXES - REGULAR SESSION

HB 2185
Chapter 32

Liquor brewpubs.
HB 2185 added new provisions for beer licenses under Title 4, A.R.S. An individual who produces beer within the state may sell his product as a retailer if all the following statutory criteria are met: 1) an in-state producer holds an on-sale retail liquor license; 2) the sales involve only beer produced on the premises; and 3) the beer is sold at retail on or adjacent to the premises of the in-state producer. Effective August 18, 1987.

HB 2323
Chapter 264

Domestic microbrewery.
This law creates a new licensure category of domestic microbrewery where a person produces at least 10,000 gallons but less than 310,000 gallons of beer annually. Also included are restrictions on the license qualifications, sale and serving of beer, the ownership, and the retail operation of the microbrewery. Effective August 18, 1987.

ADMINISTRATIVE - REGULAR SESSION

SB 1300
Chapter 181

General tax administration.
This bill made numerous amendments to the general tax administration provisions, which were efeective July 1, 1986. Among those changes were: duplicate notices of assessments must be sent if either spouse notifies the Department of separate residences; a taxpayer must file a return within fifteen days of notice and demand by the Department; the Department has fifteen days to issue letters of good standing in successor liability situations or to notify the requestor why such a letter cannot be issued; an appeals process in jeopardy assessment situations, without the posting of a bond, which also allows collection of the liability during the appeal; clarification of appeals in refund denial

situations; and the provision that reasonable cause for civil penalty abatement in transaction privilege and use tax situations includes a reasonable belief that the tax did not apply to the taxpayer's business activity.

HB 2006 **Taxation, bad check fee.**
Chapter 26 HB 2006 allows the Department of Revenue to impose a fee of $25 on taxpayers who submit bad checks or other non-negotiable instruments when submitting payment on tax liabilities. Effective August 18, 1987.

HB 2005 **Tax accounts; hiring collection agencies.**
Chapter 57 This was a Department-requested bill which provides the authority to enter into contingent fee contracts to collect delinquent taxes from Arizona corporations, residents, or partnerships. The assignments are limited to cases of under $500. A taxpayer who fails to pay any delinquent taxes, penalties, or interest may be held liable for all costs, including the contingent fees from the agency. Effective August 18, 1987.

HB 2039 **Nuclear emergency appropriation and assessment.**
Chapter 95 This bill annually provides for the appropriation from the State General Fund to the Nuclear Emergency Management Fund. The appropriation totaled $483,700. An assessment of a similar amount is levied against each consortium of public service and municipal corporations engaged in constructing or operating a commercial nuclear generating station. Effective August 18, 1987.

HB 2004 **Correcting tax statutes.**
Chapter 134 HB 2004 is a technical bill which corrects multiple legislative enactments, removes obsolete or repetitive language in the tax statutes, and provides for various technical corrections to sections of the law pertaining to taxation. A substantive change in this bill provided for non-profit ambulance companies to operate bingo games for fund-raising purposes. Effective August 18, 1987.

HB 2008 **Taxation; writ of mandamus.**
Chapter 162 The Department requested this provision for a writ of mandamus to be issued by the Superior Court in certain instances to compel the filing of tax returns and to provide production of tax-related records. The taxpayer is required to file a return within 60 days of a final demand from the Department. If a return is not filed, the Department may petition the court to issue a writ of mandamus requiring the taxpayer to file a return. The petition must be returned not later than ten days after filing, at which time the court must hear and rule on the petition as soon as possible. The judgment must include costs in favor of the prevailing party. An additional provision allows the Department to apply to Superior Court for an order directing taxpayers to provide tax determination information when they have

previously refused to comply. Failure to comply on the part of a taxpayer is punishable as contempt of court. Effective August 18, 1987.

HB 2161 **Tax court study commission.**

Chapter 310 A tax court study commission is established under HB 2161. The commission consists of three members each from the House and Senate appointed by the Speaker and President, respectively; the Director of Revenue or his designee; the Attorney General or his designee; the Chief Justice of the Supreme Court or his designee; and two attorneys or account nts experienced in state tax practice and appeals, one appointed by the Speaker of the House of Representatives and one appointed by the President of the Senate. The commission is charged with studying the need to establish a tax court in the state and to consider the issues of establishing such a court. A report of the commission's findings is to be filed no later than November 30, 1987, at which time the commission terminates and the law expires. Emergency effective date of May 16, 1987.